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DEPARTMENT OF FINANCE

Zhodnocení finanční situace společnosti Li Ning Company Limited

Financial Situation Evaluation of the Li Ning Company Limited

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1. Introduction
2. Characterization of the Financial Analysis Methodology
3. Profile of the Company
4. Evaluation of Financial Situation of the Company
5. Conclusion

Bibliography
List of Abbreviations
Declaration of Utilization of Results from the Bachelor Thesis
List of Annexes
Annexes

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"Herewith I declare that I elaborated the entire thesis, including all annexes, independently."

Ostrava dated May 7th 2015

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Contents

1 Introduction

Li Ning is a heroic character in China. In 1982, he won six of the seven medals awarded at the Sixth World Cup Gymnastic Competition, earning him the title "Prince of gymnastics". In 1990 he founded Li Ning Company Limited, which sells footwear and sporting apparel in China.As a local brand, Li Ning is one of the leading sports brand companies in China firmly before the 2013 in Chinese sports markets. Recently, it have encountered great crisis.

Financial evaluation refers to the evaluation of corporate finance, and it starting from financial risk analysis. Enterprises are faced with financial risk, operational risk, market risk, investment risk and other factors, the financial assessment is understanding of the sources of risk and size, according to its causes and processes, develop appropriate risk control strategies to reduce risk even to lift, so that the healthy development of enterprises. Financial evaluation is calculated from the financial benefits and costs, preparation of financial statements to obtain financial evaluation, investigated project profitability, solvency and foreign exchange balance finances.

The objective of the thesis is to use some financial analysis methods to analyze Li Ning Company’s financial situation from the year 2009 to 2013.

The full text is divided into five chapters, of which the second, third and fourth chapters are divided into 11 parts. The first chapter is the introduction of the full text. The last chapter, we got a conclusion of the company, including evaluation of the company, reasons and solving methods of the problems and personal views. In this chapter, we will go back to the thesis and have an overall look at all the data or figures we did.

In chapter2, we will describe the characterization of the financial analysis methodology which will be used in this thesis. There are four main parts in this chapter: one is common-size analysis, then is financial ratio analysis, next is DuPont analysis, including method of gradual and logarithmic decomposition method.

In chapter 3, we will make a profile of Li Ning Company. Show a general introduction about Li Ning Company’s facts, history, prospect and main competitors and so on. As a good analyzer, knowing the company comprehensively is needed, because we can get a general understanding of the company's situation.

The fourth chapter is the most important part of this thesis, and is the core content, other chapters are serving it.In chapter 4,we show all-sided financial analysis of the company, and we use the previously mentioned four methods to conduct a comprehensive analysis on the company. Let us clear understanding to the company the movements of the fundamentals of five years. Hence, it is the practical part and also the most important part in this thesis. In this chapter, we made good use of balance Sheet, income statements and cash flow Statements of the company.

2 Characterization of the Financial Analysis Methodology

In the chapter of the thesis, we will introduce the financial analysis methodology. First is vertical & horizontal common-size analysis, then is financial ratio analysis, next is DuPont analysis, including method of gradual and logarithmic decomposition method.

The chapter is based on Robinson (2012) and Zmeškal (2004). To conduct financial evaluation, should be fully applied methods of financial analysis. It should use a variety of technical methods of financial analysis, mainly comparative analysis, factor analysis and trend analysis. All the methods we have introduced in this chapter will be used in the following chapter 4.

2.1 Common-size analysis

Common-size analysis is based on the financial statements. Hence, we first got to know three basic financial statements: balance sheets, income statements and cash flow statements. About common-size analysis, it can be divided into two aspects: horizontal analysis and vertical analysis. Common-size analysis is a way of comparing financial statements of different periods and factors. Common-size analysis is one of the most common and simple financial analysis methods. The aim of common-size analysis is to identify the trends and major differences. If we examine financial statements over time for a company, it is fairly difficult to spot changes in relationships because the scale of the company's accounts changes over time due to inflation, growth, and acquisitions and divestiture. It is also challenging to compare financial statements of companies of different sizes. A technique that we can use to control for the scale effect is common-size analysis. It is clear that see the changes and role of each factor, if we use common-size analysis. Common-size analysis is the restatement of financial statement items using a common denominator or reference item that allows us to identify trends and major differences. It is the analysis of the evolution of financial statements data over the time or their changes with respect to a given period as a benchmark.

2.1.1 *Profile of financial statements*

The financial statements are the main part of the financial report is prepared in order to regulate the accounting standards, financial statements disclosed to owners, creditors, government and the public.Balance Sheet is a report to reflect the financial positionon a specific date. It is the main form of accounting. About income statement, it is a reflection of the operation and the distribution of theaccounting statement of a company at a certain time period. There is growing concern that the continued viability of the enterprise, the enterprise's profitability, thus, income began to appear in the stage of history.Cash flow statement, it is an accounting statement which reflection of the sources and the use of funds from enterpriseswithin a certain period, and is a comprehensive reflection of corporate financial management processes, and reports the reasonsand results for changes in financial situation. Its purpose is to prompt the solvency and liquidity.We will comprehend the description of financial analysis methodology.To overall analyze a corporation, the first step is to arrange data which are company's balance sheet, income statement, and cash flow statement and so on.

2.1.2 *Vertical analysis*

In general, vertical common-size analysisis the analysis of the changes in the proportions of selected benchmarks. We use vertical common-size ratio analysis to analyze the profit mode (using the common-size income statements) and mode of investment and financing (using a common-size balance sheet). Because we scale each account by the reference account, we can also use to compare the percentage of the generated across the company. For example, we can get a sense of how to profit as a percentage of income in continuous time. In addition, we can check the relative to competitors, the percentage of the company. We can also see a reliance on debt financing company has with the passage of time by focusing on the debt assets as a percentage of change. In addition, we can represent the information in the form of graphs; this allows us to more easily visualize the tendency of these components for a period of time.

2.1.3 ***Horizontal analysis***

Horizontal analysis is another very important method, the financial statements under horizontal analysis is clear at a glance. The horizontal analysis provides a method to compare dates from one period to the next period, using financial statements from two or three distinct periods. In horizontal common-size analysis, we use a base year as the benchmark and then restate all subsequent years relative to that base.

2.2 Financial ratio analysis

Financial ratio analysis is the use of financial accounting and other information to assess the company's financial performance and financial position.In particular, the ratio of financial ratio analysis is used to form the comparison of financial data to evaluate the company's financial position and profitability. Hundreds of ratio can be formed using available financial data. At the same time, it faces two challenges. Determine which ratio is the most appropriate, is one of the inquiry to the company. Another is in choosing the most appropriate, the purpose of the mobile ratio. Financial ratios using the company's financial statements and market data calculation, but the explanation of these ratios also should consider the company's specific events and general economic cycle.

We can classify ratios into several types, based on the dimension of the company’s permanence and condition. The main ratio categories will be described as liquidity ratios,asset management (Activity) ratio, leverage ratios and profitability ratios. Each ratio provides a somewhat different analysis. Thanks to financial ratio represents the latest financial data available, it becomes the most important for the most recent year. And it will be clearly and directly known how good or bad a company is as a ratio. Let us detailed discuss various ratios.

2.2.1 *Liquidity ratios*

We use liquidity ratios to check company's ability to meet its short-term obligations. Current marketable securities are investments of excess cash into liquid debt securities to gain a return until the cash was needed for operations. In the context of financial analysis and reference flow for the company's ability to meet its use is most easily converted into cash assets of current obligations. We will look at these three proportions:

The current ratio

This is a standard ratio to assess working capital, and the ratio of current assets to current liabilities. This ratio is also a measure of a company's ability to satisfy. In general, current ratio larger than 2, which means the company's liquidity is very smooth. If current ratio greater than 1.5 but smaller than 2, which means the company's asset liquidity is plain. Current ratio smaller than 1, it means the company's liquidity is poor. The formula is:

$$\textbf{Current ratio} = \frac{\textbf{Current assets}}{\textbf{Current liabilities}} \tag{2.1}$$

The quick ratio

The ratio is use for remove inventory and other current assets from the denominator. In addition, the quick ratio is a more rigid measure of liquid assets. The optimal quick ratio is 1:1, which means that if the company to borrow a unit of currency current liability, there is a unit of easy-to-tap assets immediately, which means that current liabilities can be met from current assets without the need to sell inventory. It is calculated as:

$$\textbf{Quick ratio} = \frac{\textbf{Cash} + \textbf{Short} - \textbf{term securities} + \textbf{Net receivables}}{\textbf{Current liabilities}} \tag{2.2}$$

The cash ratio

It is also the most rigid measure of liquidity. Cash ratio is only point at the current liabilities; it is the most liquid project, so it is also the most conservative one from three liquidity ratios. The higher the cash ratio is the better for creditors when deciding how much they make a liability. The formula is:

$$\textbf{Cash ratio} = \frac{\textbf{Cash} + \textbf{Short} - \textbf{term marketable securities}}{\textbf{Current liabilities}} \qquad (2.3)$$

2.2.2 *Asset management (Activity) ratios*

There is a kind of ratio is used to assess the benefit of the company. This is the activity ratios. It can evaluate the company how to not put it into use. Activity ratios are often used to check them. They can also help us to evaluate specific assets, such as inventory or accounts receivable generated by the benefits. Or we can be used to evaluate the benefits produced by all of a company's assets collectively. There are two types of activity measures: turnover ratios and number of days. With turnover ratios, we measure how many times during the period the company has effectively used its assets to produce a benefit. With number of day measures, we arrive at an approximation of how long it takes to recover the company's investment. As you will see, there is a direct relationship between turnover ratios and the number of days.

Inventory turnover

Inventory turnover is a ratio that shows how many days a company's inventory is sold and replaced over a period, and is the ratio of cost of goods sold to inventory. The ratio is a sign of the resources tied up in inventory relative to the speed at which inventory is sold during the period. The formula is:

$$\textbf{Inventory turnover} = \frac{\textbf{Cost of goods sold}}{\textbf{Average inventory}} \qquad (2.4)$$

Accounts receivables turnover is the ratio of total revenue to average accounts receivable. This ratio provides an indication of the resources tied up in accounts receivable and provides the speed at which receivables are collected during the period. We also call this method as collection period. The formula is:

$$\textbf{Receivable turnover} = \frac{\textbf{Sales}}{\textbf{Average receivables}} \qquad (2.5)$$

Average collection period is conversion time from the get the right to recover the cash to accounts receivable for a company. It is secondary index of accounts receivable turnover, the shorter the collection days, indicating better working capital efficiency. The company is a check of how long it takes to recover the receivables, belonging to the company operating capacity analysis category. The formula is:

$$\textbf{Average collection period} = \frac{\textbf{Accounts receivable}}{\textbf{Credit sales}} \cdot \textbf{360} \qquad (2.6)$$

Fixed-asset turnover

This ratio checks a company's ability to generate net sales from fixed assets investments like specifically property, plant and equipments. The turnover is calculated as:

$$\textbf{Fixed assets turnover} = \frac{\textbf{Sales}}{\textbf{Average fixed assets}} \qquad (2.7)$$

Total asset turnover

The total asset turnover is the ratio about sales to total assets. The ratio is more useful and easier for a growth company check if they are growing revenue in proportion of sales in fact. The formula is:

$$\textbf{Total asset turnover} = \frac{\textbf{Sales}}{\textbf{Average total assets}} \qquad (2.8)$$

Payables turnover

Payable turnover reflects the ability of the company supply free use of company capitals. Reasonable payables turnover comes from comparison with the industry and the company's history to normal levels. If the company payables turnover rate is lower than the industry average, indicating that the company may be more occupied than the peer provider payment of goods, show its important position in the market, but we must assume more repayment pressure in this situation.

$$\textbf{Payables turnover} = \frac{\textbf{Sales}}{\textbf{Average accounts payables}} \qquad (2.9)$$

2.2.3 *Leverage ratios*

In generally, Leverage ratio refers to the ratio of the total assets and equity capital in the balance sheet. Leverage ratio is a measure of corporate debt risk indicators, from the side reflects the company's ability to repay. It can also call solvency, and is also a ratio that is used to check a company's mix of operating costs, giving an idea of how much changes in output will affect operating income.

Debt to assets

This debt ratio is an index of the proportion of a company's assets that are being financed with debt. The formula is:

$$\mathbf{Debt\ ratio} = \frac{\mathbf{Total\ Debts}}{\mathbf{Assets}} \qquad (2.10)$$

Debt-to-equity ratio

The debt-to-equity ratio is similar to debt ratio; it indicates the amount of the company's debts relative to company's equity. The high ratio means that a company has been aggressive in financing its growth with debt. This may result in volatile gaining as a result of the additional interest expense. The formula is:

$$\mathbf{Debt - to - equity\ rate} = \frac{\mathbf{Total\ Debts}}{\mathbf{Equity}} \qquad (2.11)$$

Long-term debt to equity

The long-term debt-to-equity ratio is the proportion of the asset hat is financed with long-term debt. The formula is**:**

$$\mathbf{Long - term\ debt - to - equity} = \frac{\mathbf{Long - term\ Debts}}{\mathbf{Equity}} \qquad (2.12)$$

2.2.4 *Profitability ratios*

An analyst can tell whether a company is profitable or not which based on whether net income is positive immediately. Of course, net income alone does nothing to describe the efficiency with which profit was generated or the level of investment required to generate that profit. To conduct a more thorough analysis of profitability, analysts examine various margins and return-on-investment ratios. Hence, the most significant predictor of company market valuation is profitability.

Operating profit margin

The margin is the proportion of operating income total revenues. Operating profit margin indicates how much of each unit revenues are left over after both cost of goods sold and operating expenses are considered. The formula is:

$$\textbf{Operating profit margin} = \frac{\textbf{Operating income}}{\textbf{Total revenue}} \qquad (2.13)$$

Net profit margin

We can call net profit margin as net sales margin, which is an important indicator reflecting the profitability of the company, and is the deduction of all costs, expenses and corporate income tax profit margins. The formula is:

$$\textbf{Net profit margin} = \frac{\textbf{Net income}}{\textbf{Total revenue}} \qquad (2.14)$$

Return on assets (ROA)

The return on assets is the proportion of net income to assets and indicates the company's net profit generated per dollar invested in total assets, generally.

ROA is the first choice to show you the relation between net income and average total assets. The formula is:

$$\textbf{Return on assets} = \frac{\textbf{Net income}}{\textbf{Average total assets}} \qquad (2.15)$$

Return on equity (ROE)

The ROE is more specifically directed to the return to shareholders. It is the ratio of net income to shareholders' equity. This return represents the profit generated per currency of shareholders' investment:

$$\textbf{Return on equity} = \frac{\textbf{Net income}}{\textbf{Average shareholder's equity}} \qquad (2.16)$$

2.3 DuPont Analysis

In order to knowing DuPont more clearly we refer to the book Zmeškal (2004). In 1919, DuPont analysis was developed by E.L. du Pont de Nemours. DuPont analysis is the use of the relationship between several key financial ratios to a comprehensive analysis of the financial situation of companies. It is as one classical method that to assess the performance from a financial point. It helps in-depth analysis and comparison of achievement of company. Because this analysis method was first used by DuPont, it called DuPont analysis.

The basic content of DuPont analysis is to progressively decompose the company ROE into several parts of financial ratios which helps in depth analysis and comparison of operating performance. This provides us to know the operating and profit situation of the company clearly. Hence, we analyzed more conveniently and more comprehensively.

Otherwise, DuPont analysis helps corporate management more clearly to see the decisive factors of return of equity, as well as the interrelated relationship between net profit, total assets turnover and debt ratio. And it offers a roadmap for the company management to investigate the efficiency of assets management clearly, and whether the return of equity is maximizing or not.

We can better understand a company's returns over time and its returns in comparison with its competitors by decomposing their components. This approach began as an analysis of the elements in the ROA. The purpose of this analysis is to consider interrelated sides of important financial ratios and assess the various levels to overall financial analysis. Next part, the pyramidal decompositions are also called DuPont analysis. DuPont analysis was developed as a method to better understand return ratios and why they change over time. The bases for this approach are the connections made through financial ratios between the balance sheet and the income statement. This approach began as an analysis of the elements in the ROA and ROE: We use the five-component du Pont analysis here. We take a look at the return on equity:

$$\mathbf{ROE} = \frac{\mathbf{Net\ profit}}{\mathbf{Total\ assets}} \cdot \frac{\mathbf{Total\ assets}}{\mathbf{Total\ equity}} \tag{2.17}$$

$$\mathbf{ROE} = \frac{\mathbf{Revenues}}{\mathbf{Total\ assets}} \cdot \frac{\mathbf{Net\ profit}}{\mathbf{Revenues}} \cdot \frac{\mathbf{Total\ assets}}{\mathbf{Total\ equity}} \tag{2.18}$$

$$\mathbf{ROE} = \frac{\mathbf{OP}}{\mathbf{Revenues}} \cdot \frac{\mathbf{Revenues}}{\mathbf{Totalassets}} \cdot \frac{\mathbf{EBT}}{\mathbf{OP}} \cdot \left\{1 - \frac{\mathbf{Taxes}}{\mathbf{EBT}} - \frac{\mathbf{MI}}{\mathbf{EBT}}\right\} \cdot \frac{\mathbf{Total\ assets}}{\mathbf{Totale\ quity}} \tag{2.19}$$

The return on equity is useful for comparing the profitability of a company to that of other companies in the same industries. The traditional DuPont analysis is expressed as ROE which is dividing into three parts: activity, solvency and profitability. We use the five-component du Pont analysis here. We have five parts, and put some indicators were compared with the same industry. Hence, it is so easy to make out a company clearly. Here index is financial leverage which measured by the equity multiplier to assess the solvency. More debt-to-assets ratio, the higher is the equity multiplier which means the more debt the company has, and it will have more leverage profit. On the other hand, it more risks, too. On the contrary, the less debt-to-assets ratio, the lower is the equity multiplier and both leverage profit and risk will be lower by step.

2.3.1 *Method of gradual changes*

Influence quantification enables to analyze indicators, whose changes have caused change in the basic ratio. Basic methods for quantification of influence divided into four kinds: method of gradual changes, method of decomposition with surplus, method of logarithmic decomposition, method of functional decomposition. We use two methods here. First is method of gradual change, it enables to quantify the changes in the basic ratio which is caused by change in the component ratio. That should be decomposed into three or four component ratios. We can regard X as a basic ratio, and every element can be called component ratio. Calculation as well as residue free decomposition can be considered to be advantages of this method. Disadvantage is the fact that the strength of the influences of particular indicators depends on the ranking of indicators in the calculation.The formula can be written as:

$$\Delta X_{a1} = \Delta a_1 \cdot a_{2,0} \cdot a_{3,0}$$

$$\Delta X_{a2} = a_{1,1} \cdot \Delta a_2 \cdot a_{3,0}$$

$$\Delta X_{a3} = a_{1,1} \cdot a_{2,1} \cdot \Delta a_3 \ , \qquad (2.20)$$

where X is basic ratio,ΔXisabsolute change in the basic ratio, a is component ratio, Δa is absolute change in the component ratio and ΔX_{ai} is absolute change in the basic ratio caused by the change in the component ratio.

2.3.2 Method of logarithmic decomposition

About logarithmic decomposition method, there are a lot of advantages: it can reflect simultaneous change of all analyzed indicators and there are no problems of the indicator ranking and arising of residues. On the other hand, we need just one formula for the impact quantification regardless of how many component ratio we have. The disadvantage consists in the fact that all indexes must be positive, because this method is based on the calculation of index logarithm. The formula can be written as:

$$\Delta \mathbf{X}_{\mathbf{ai}} = \frac{\ln \mathrm{I}_{\mathrm{ai}}}{\ln \mathrm{I}_{\mathrm{x}}} \cdot \Delta \mathrm{X} \,, \qquad (2.21)$$

where $\boldsymbol{I_x} = \frac{X_1}{X_0}$ is index of change in the basic ratio and $\boldsymbol{I_a} = \frac{a_1}{a_0}$ is index of change in component ratio.

3 Profile of the Company

Li Ning Company Limited is one of the leading sports brand companies in China, mainly providing sporting goods including footwear, apparel, equipment and accessories for professional and leisure purposes primarily under the Li Ning brand. Headquartered in Beijing, the Group has brand marketing, research and development, design, manufacturing, distribution and retail capabilities. It has established an extensive supply chain management system and a retail distribution network in China. Li Ning branded products are targeted for consumers who participate in sports such as running, basketball, badminton, football, tennis and fitness. The company endorses a lot of athletes, teams and stars, both at home in China and abroad.

3.1 History of Li Ning Company Limited

Let us learn about the history of Li Ning. In1989,Li Ning established in Guangdong and registered the "Li Ning" trademark. At first, the young Li Ning and his friends believe that "the Chinese created excellent performance in the Olympic Games, why not create excellent sports brand?" In August 1990, Li Ning sponsored the Chinese delegation for the 11th Asian Games. During this period, Li Ning's slogan is "China's new generation of hope". In July 1992, Li Ning sponsored the Chinese delegation for Barcelona Olympics. In 1993, took the lead in establishing nationwide franchise operations. In July 1996, Li Ning sponsored the Chinese delegation for Atlanta Olympics. In March 1998, Li Ning established the first design and R&D centre in Foshan, Guangdong. In September 2000, Li Ning sponsored the Chinese delegation for Sydney Olympics. In 2001, Li Ning honored with the title of "Strategic Partner of China Olympic Committee". In2002, Li Ning established corporate mission, vision, core values and business development strategy and established brand positioning and slogan "Anything is possible". In 2003, commenced the implementation of the information management system for distribution channel and installed E-POS system at retail terminals. In June2004, Li Ning officially listed on the Main Board of the Hong Kong Stock Exchange (Stock code: 2331), becoming the first Chinese mainland sporting goods company listing in Hong Kong. In August, Li Ning contracted with the Spanish Basketball Association to become the official sponsor of the men's and women's Spanish National Basketball Teams. In November, Li Ning Established an apparel design and R&D centre in Hong Kong. In January2005, Li Ning became a constituent stock of Hang Seng Composite Index Series and Hang Seng Free Float Index Series. In January2006, Li Ning signed an agreement with NBA star, Damon Jones, and became the first Chinese sports brand to appear in an NBA basketball court. In March, Li Ning cooperated with Association of Tennis Professionals as its official marketing partner. In April, Li Ning became the title sponsor of the new China University Football League. In August, Li Ning collaborated with NBA superstar, Shaquille O'Neal, to jointly develop in China's basketball market. In January2007, Li Ning entered into an agreement with Argentina Basketball Federation and became the official sponsor of the men's and women's Argentina National Basketball Teams. This year Li Ning became the designated official partner to provide sportswear for the Swedish Olympic Delegation. Li Ning honored "2006 The Best Enterprises' Public Image Award" jointly organized by the Enterprise Research Institute. In April, Li Ning honored as "2006 The Most Respectable Enterprise in China" for two consecutive years. Li Ning collaborated with Beijing Sports University to promote sports development in rural areas of China. In June, Li Ning became the official partner of the Spanish Olympic Committee and the official sportswear sponsor of the Spanish Olympic Delegation. In March2008, Li Ning announced collaboration with Michelin for the research and development of high-performing sports footwear products. In July, Li Ning entered into a 20-year license agreement with Lotto. In August, Mr. Li Ning, in his capacity as the representative of leading Chinese athletes, lighted the cauldron for the Beijing Olympics. In February2010, the grand opening of the first Li Ning brand retail store in Oregon, Portland, in the United State. In May, Li Ning officially promoted Li Ning brand badminton products in Malaysia. In July, Li Ning reshaped the image of the Li Ning brand and unveiled Li Ning brand's new logo and slogan "Make the change". The Li Ning brand will take lead in the upgrade of China's sporting goods industry and move forward to become a global brand.In January 2011, Li Ning entered into a partnership with Chicago-based Acuity Group to expand its U.S. distribution and brand awareness. In March2011, Li

Ning honored with "2010 China 100 Most Valuable Footwear Brands" and "China Top 10 Sports Shoes Enterprises" judged jointly by four authorities in the industry. In July, Wade's arrival in Beijing marked the beginning of his trip to China, including visits to Beijing, Guangzhou and Shanghai, during which the "Way of Wade" series of products were formally launched. These range of events met with great success, making this NBA star China trip the most influential one in the summer of 2013. The product broke the traditions in dissemination by extending beyond product functions to sportsmanship, so as to intensify target consumers' attitudes towards sports. In 2013, The Group recorded revenue of CHY2906 million, which represents a decrease of 24.6% year-on-year, due to near-term focus on sell-in reductions, inventory clearance as well as store rationalization[1].

3.2 Introduction of originator and manager

About originator, Mr. Li Ning, aged 51, is the founder of the LI NING brand and the Group's Executive Chairman and an executive Director of the Group. Mr. Li also serves as the Chairman of the Executive Committee and a member of the Nomination Committee. He is primarily responsible for formulating the Group's overall corporate strategies and planning.

Mr. Li is one of the most outstanding athletes in the 20th century. In the 6th World Cup Gymnastics Competition in 1982, Mr. Li unprecedentedly won six gold medals in men's artistic gymnastics positions with Germany based events and was named the "Prince of Gymnastics" in China. In 1987, Mr. Li became the only Asian member of the Athlete's Commission of the International Olympic Committee. In 1999, Mr. Li was voted one of the "World's Most Excellent Athletes in the 20th Century" by the World Sports Correspondent Association. After retiring in 1989 from his athlete career, Mr. Li initiated the idea of Li Ning brand with the goal of creating the first national sports goods brand in China, making great contribution to the development of the sporting goods industry in China.

[1] http://en.wikipedia.org/wiki/Li-Ning

Mr. Li also serves as chairman, chief executive officer and executive director of Viva China Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Li holds a bachelor's degree in law from School of Law of Peking University, an executive M.B.A. degree from Peking University, a technical honorary doctorate from Southborough University in the United Kingdom.

About administrator, Mr. Jin-Goon KIM, aged 46, is the Executive Vice Chairman and an executive Director of the Group, leading the development of the Group's internal affairs and daily operations. Mr. Kim also serves as a member of the ExecutiveCommittee and the Nomination Committee. Mr. Kim became a director of the Company in April 2012. Mr. Kim is a partner of TPG and a member of TPG's Group. TPG is a world's leading private equity investment firm. From December 2007 to January 2011, he was an executive director and interim chief executive officer of China Grand Automotive Service, and was appointed as vice-chairman of the Board from April 2012 to September 2013 and built China's leading passenger car retail and service network. Mr. Kim worked for Dell Inc. as the managing director of its Korea business from 2002 to 2006. Prior to that from 2000 to 2002, Mr. Kim was vice president of Internet Business Capital Corporation in Cambridge, Massachusetts, a privately funded early-stage venture capital firm and from 1996 to2000; he was the engagement manager at McKinsey & Company, an international management consulting firm. Mr. Kim received his undergraduate degree in Arts majored in Government and East Asian Studies from Harvard University with High Honors, conducted post graduate research in Nanjing-Hopkins Center in China, and returned to Harvard University to pursue his Master of Public Policy[2].

3.3 Market operation of Li Ning Company Limited

Let us learn about the operation of the Li Ning now. For the listed companies, itis more importantly. Against the backdrop of a slow recovery in the global economy,consumer industries, including sportswear, continued to face headwinds due to macroeconomic

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[2]http://www.li-ning.com

uncertainties and the remaining overhang from industry expansion.However, demand in core sportswear remained strong as Chinese consumer preferences have been changing quickly, becoming more sophisticated and increasingly focused on value, quality and functionality. These shifts posed significant challenges to the existing model of commoditization by brands lacking innovation capabilities. Firmly embedded in the China market, Li Ning Company is committed to strengthening and enriching our brand profile in the five core sports categories of basketball, running, badminton, training and sports life. However, shifting market dynamics such as new casual wear entrants, fast moving fashion trends and thriving-commerce have put further pressureon existing business modelsin the domesticmarket. As a result, the bar has been raised significantly where only brands which innovate and transform will be best positioned for future growth in market share. Li Ning Company is determined to invest boldly, but wisely, to successfully transform ourselves into a leading sportswear retailer and China's champion brand. In 2013, TPG, a private investment firm, continued to be a core investor of the Company. TPG drew upon its network to introduce resources and expertise required for our Transformation Plan, and contributed valuable insights to our business and development strategies to ensure efficient execution. The past year marked a milestone for Li Ning group-wide transformation efforts. The Transformation Plan, initiated in 2012 when strategic investors with expertise in retail turnaround were brought in, was designed to transform LI NING into a leading sportswear brand in China. Since then, the Group has made significant progress in creating an ecosystem of global and local talents to facilitate the industry's first and most comprehensive transformation. Li Ning engaged best-in-class partners and advisors with deep expertise inrestructuring channels and building direct-retail infrastructure, as well as a world-class management team. Li Ning established partnerships with industry leaders in materials and manufacturing technologies critical for premium sportswear, and hired creative talents locally and internationally in product design and development. The solid progress that the Group made over the last year in it transformation has laid a strong foundation for the next phase of growth. Li Ning streamlined various aspects of it operations, repositioned the Li Ning brand and rationalized our sales channels and store network. At the end of it transformation efforts, Li

Ning aim to build a healthy and sustainable business model based on strong engagement and cooperation with it key partners and distributors. Despite the inevitable pain on it business in the short term, Li Ning believe the Transformation Plan will stand it in good stead for a sustainable future. The Group adhered to Li Ning vision of building a core LI NING brand and repositioned our brand value proposition with authenticity and unique marketing assets, in order to achieve the best value-price equilibrium and capture the growing middle-class market.

In marketing, although Li Ning's logo is very similar to Nike's Swoosh, its logo design is based on its own initial letters L and N. The company has aggressively used sponsorship deals, particularly with athletes and sports teams, both in China and abroad, to raise its profile. In 2006 the company signed "strategic collaborations" with the National Basketball Association, the Association of Tennis Professionals, the China University Basketball Association and the China University Football League. It also signed sponsorship deals with the Chinese national teams and the Sudan track and field team. The company will also provide apparel for the Argentina national basketball team at international events including the 2008 Summer Olympic Games and 2012 Summer Olympic Games. A similar deal was made with the Swedish Olympic Committee. Since at least 2004, both the Spanish men's and women's national basketball teams have been equipped by Li Ning. About production, Li Ning produces shoes and sportswear, largely for the Chinese market. The company has seen explosive growth in shoe sales in the past several years. In March 2006, The Li Ning 001 Limited Edition shoe was available. This is the first time a Chinese sports brand made a limited edition sneaker for sale.In advertising aspect, Li Ning aggressively sought sponsorship opportunities related to the 2008 Summer Olympics being held in Beijing, China. The company arranged to outfit every presenter for broadcaster CCTV-5. In a now famous case of guerilla marketing, when entire countries were tuned into the 2008 Summer Olympics opening ceremony and worldwide millions more saw Li Ning light the torch they also learned that he owns a shoe company with the same name, but is not an official Olympic sponsor. Li Ning also sponsored several Chinese sporting teams, as well as the Spanish and Swedish Olympics teams. Li Ning was an official marketing partner of the National Basketball Association and has sponsorship deals with five players: Baron Davis, Shaquille O'Neal (retired), Damon Jones, José Calderón of the New York Knicks, and Evan Turner of the Boston Celtics. In 2006, O'Neal signed a four-year deal with Li Ning, reportedly worth US$1.25 million, the largest deal made by the company, and the highest profile signing of an American sports star by a Chinese company. O'Neal cited former teammate Damon Jones and the Spanish national basketball team's deal with Li Ning as influences on his decision to sign with Li Ning. In 2012, Wade left the Jordan Brand for Li Ning. Wade is a very popular star in NBA.

3.4 The growth and development of Li Ning Company Limited

Let us talk about climax of Li Ning Company Limited. Li Ning, everyone very familiar with it in China; Li Ning brand sportswear, a Chinese sportswear brand; When I was teenage, I am eager to have a pair of Li Ning sneakers. In 2008, the prince of gymnastics "flying by fire" in the Olympic Games, but also pushed the Li Ning brand sportswear to the top of the glorious. A gold medal from 106 to 11 billion worth of myth began to attract more attention of the Chinese people. In the early 90 s last century, Li Ning absence of rivals and speed forward development. Marketing guru Jack Trout said: "the best competition is not competition. No enemy means opportunity, opportunity means wealth!" Li Ning sportswear, from the moment it was born, facing the pressure of competition is very small, because of the lack of competition in market environment and opportunities, as well as with Li Ning their personal charm, and sponsoring sporting events will "Li Ning" brand into the inner of consumers. In 2001, Li Ning company turnover of RMB 730 million, net profit of 49.6 million CHY; In 2002, Li Ning sales reached 950 million; Topped 1.2 billion in 2003;In 2004 broke through 1.8 billion; And in that year to become the first overseas-listed Chinese sports goods company; In 2008, as the Li Ning 's flying in the Olympic Games by the fire, the turnover reached 6.69 billion CHY, net profit rose to 721 million CHY, Li Ning company has entered the most glorious moment.

Let us talk about the decline of Li Ning Company Limited. In 2014, in the various agencies, in addition to the Goldman Sachs "buy", others are almost "sell" rating, in the habit of seller's research in the market, usually only on the verge of bankruptcy company will have this treatment. In 2010,Li Ning only down performance, and disastrous of stock prices. I do not know from which day on, neighborhood Li Ning stores quietly disappear, it has been on sale. Since it was founded in 1990, Li Ning company has maintained rapid growth, sales climbed to $2010 by 9.478 billion CHY, and then like a runaway roller coaster turn around. In the second half of 2012, Li Ning loss of 2 billion CHY, in the first half of 2014 reported Li Ning losses of 586 million CHY, its losses 400million than the same period last year 4. Li Ning, the situation is bleak. It has continuous loss of more than four years. In the first half of 2014, Li Ning shut off 244 stores during 6months, cancelled 3 dealers, but the decline is not under control. It seems, began in 2012 the "innovation plan" has not achieved significant results, but left little time for Li Ning.

Let us talk about the prospect of Li Ning Company Limited. Make full use of differentiation strategy factors in competition. First of all, the clothing enterprises to be liberated from the long industrial chain, through the industrial chain, increase and maintain appropriate directly proportion, realize the virtual inventory management mode; Second, the change the situation that don’t understand consumer in the past, gradually understand the consumer segmentation and value pursuit; Once again, change the single product, provide different products for different customer groups. Introducing advanced retail management, using the same tools and science wholesale business management, on the basis of data analysis tools. About the stores system use the Vendor Managed Inventory mechanism, realizes the commodity transfer within the system. For example, in the luxury sector, based on the requirements of category combination, subdividing the supply chain and product series and thus increase the breadth and depth of supply, improve passenger number, quarterly shop visit, sales number and the average sales, shortage situation will turn controlled. By the end of 2013, Li Ning was near to completion of the first phase of our Transformation Plan in fixing the business with encouraging core trends. However, time is still needed to resolve issues with the last group of weak channel partners and the final batch of old inventory. Li Ning witnessed positive signs of success and potential of the new business model through the performance of our new products and revamped stores. Li Ning expect the final phase of transformation to require 18 to 24 more months of investment so as to complete the build out of the new operational platform and the shift towards more direct retail and self-owned stores. Financially, while Li Ning cost structure and operating cash flow have improved significantly, this was balanced by bold investments in transforming the brand and operations. This could mean more time before the benefits of our actions today become fully reflected in our financial results.

3.5 Main competitors of Li Ning Company Limited

We knew Li Ning and Anta have been arch rivals for a long time in domestic markets, and Li Ning and Adidas have been arch rivals in international markets. The two companies operate is relatively good in the industry. Both of it is optimal object for comparison.

Anta Sports Products Limited is a professional sportswear company headquartered in China. It is involved in the innovation, design, research, development, manufacturing, marketing and retail of sports equipment. The company was established in 1994, in JinJiang, Fujian province, and listed on the Hong Kong Stock Exchange in 2007, up to 2014, Anta's market value was summed up to USD 3.87billion, which became the 5th biggest sporting goods company (market value) in the world after Nike, Adidas, Puma and Asics[3].

Adidas is a German multinational corporation that designs and manufactures sports shoes, clothing and accessories. The company is based in Herzogenaurach, Bavaria, Germany. It is the holding company for the Adidas Group, which consists of the Reebok sportswear company, Taylor made-Adidas golf company Rockport, and 9.1% of FC Bayern Munich. Besides sports footwear, Adidas also produces other products such as bags, shirts, watches, eyewear and other sports and clothing-related goods.Adidas is the largest sportswearmanufacturer in Europe and the second biggest in the world. In March 2011, Adidas spent €160 million to enable the new slogan -Adidas is all in. In China, the main competitors are Nike and Li Ning. In August 2005,

[3]http://www.anta.com

Adidas announced a $ 3.8 billion acquisition of competitor -Reebok, the acquisition will helpincrease its market share in North America, and to promote their play in the competition with "Nike" in the field of position. Adidas followed by "Nike" in the sporting goods market share followed by second place[4].

[4] http://www.adidas-group.com

4 Evaluation of Financial Situation of the Company

This chapter is the most important section of the whole thesis, and is the core content. Other chapters are serving it, and the methods introduced in chapter 2 will be used to analyze financial position of Li Ning Company limited for period 2009 - 2013.All calculation carried out based on data in annexes (Annexes 1-9).After everything's finished, we can clearly notice Li Ning Company's financial performance, position in industry and forecast its future development.

4.1 Common-size analysis

The methods introduced in chapter 2 which about common-size analysis will be used to analyze Li Ning company limited in this part. We will divide common-size analysis into two sections here. The first is vertical common-size analysis and next is horizontal common-size analysis.

4.1.1 *Horizontal common-size analysis*

Firstly, Let us focus on reconditioning statement of Li Ning Company, all data is service for the horizontal common-size analysis in the table.

According to the dates from Annex1 and horizontal analysis algorithms, we got table 4.1.

Table 4.1 Horizontal common-size analysis of Income statement

Year	2009	2010	2011	2012	2013
Revenues	100.00%	113.02%	105.97%	79.61%	69.44%
Profit before tax	100.00%	117.64%	42.66%	-140.74%	-24.72%
Net profit	100.00%	117.36%	40.85%	-209.54%	-41.45%
Other income	100.00%	153.12%	112.84%	132.79%	115.41%
Gross profit	100.00%	112.89%	103.64%	64.23%	65.34%
Operating profit	100.00%	117.64%	42.78%	-140.32%	-24.89%
Administrative expenses	100.00%	102.55%	118.93%	277.92%	39.12%
financing cost	100.00%	78.83%	149.92%	315.97%	239.77%
Cost of sales	100.00%	113.13%	108.99%	94.84%	73.13%
Depreciation cost	100.00%	121.58%	168.14%	150.10%	135.01%
Taxation	100.00%	120.26%	43.47%	47.64%	13.45%

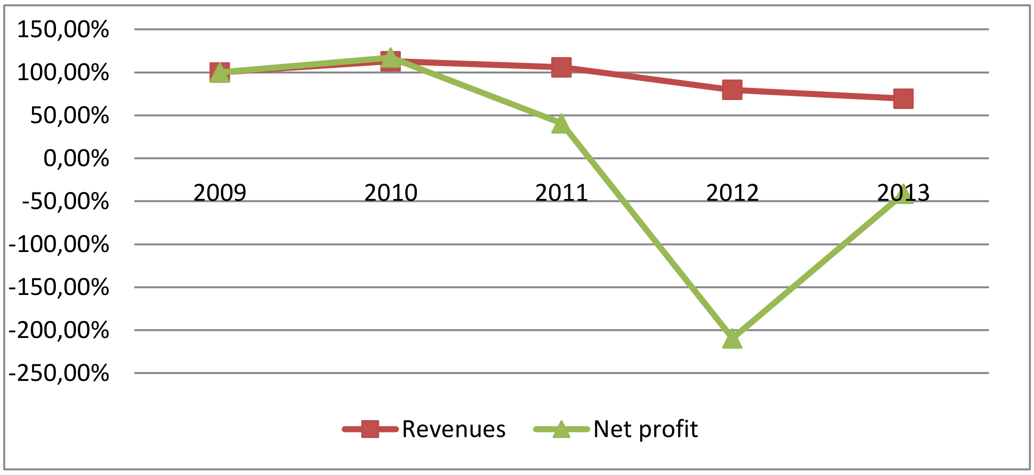
Source: Own calculation

Look at that table 4.1, comparing the data of 2009 and 2010, we can find all profits and costs have some floating, in addition to the financial cost.Interest expensesconstituted the financial costs, financial costs fellmore than twenty percent, Cash in the hand of Li Ning Company is enough in 2010, and itdidn't need a large amount of loan.Cost of sales rose 13%, net profit rose 17%, greater than the cost of sales.Among them, the other income growth rate is the largest one, reached 53%. Comparing the data of 2009 and 2011, all kinds of profits dropped substantially, various costswere on the rise, and the fundamentals were completely opposite to the 2010. The financial cost is 1.5 timesmore than 2009.Net profit is only accounted for forty percent in 2009. Next year, the company’s fundamentals was getting worse,the companywas facing comprehensive losses. The financial cost three times more than 2009, the company faces with serious shortage of funds. Compare with 2009, net loss is very serious, it is 2 times of the net profit. In 2013, Li Ning Company began to improve, the net loss accounted for forty percent of net profit of 2009, and administrative expenses accounted for only 39% of the 2009. Li Ning Company had experienced a wonderful period, then fall to the bottom. It was a shattering experience. We can know from 2008 to 2010 is the wonderful period of Li Ning Company, especially in 2008 to 2009. At Beijing 2008 Olympic Games’ opening ceremonies, Li Ning lit Olympic Games' ceremonial fire.This is the best advertising for a company.Hence, cost of goods sold is increasing from 2008 to 2010, which means the scale of production is extending.During

2008 and 2009, due to improper strategy of the future, Li Ning Company made a big mistake that is to expand production and expansion of a large number of stores. In July 2009, Li Ning store opened in Singapore, and Li Ning badminton stores opened in Hong Kong, TsimShaTsui in December 2009. In January 2010, Li Ning store opened in the United States. At the end of 2005, Li Ning company has 3373 stores, the development of the 6245 stores after three years, only one year, Li Ning company has opened 1239 new stores, the total reached 8156, created the largest sports equipment distribution channels. Peak period, Li Ning company store distribute more than 1800 cities all over China, and in southeast of Asia, central Asia, Europe, the United States and other regions.It is completely wrong understanding the market potential of the Li Ning brand. This year affected by the influence of externality. However, since 2008, Li Ning company extending overseas extensively, Citigroup said Li Ning may have pressed on with the factory-outlet expansion as a way getting rid of unwanted inventory.

We extracted two important elementsfrom table 4.1 and made chart 4.1. In order to more clearly understand the change trend.

Chart 4.1 Horizontal common-size analysis of Income statement



Source: Own calculation

From chart 4.1 we can see, the revenues rose 13% from 2009 to 2010. This year Li Ning company crazy expansion the number of outlets, and constantly increases inventories.Hence, we can know each cost has increased, for example:administrative expenses, finance costs and cost of sale. This episode carries a foreshadowing of what is to follow later on about the company. Obviously, the scope of operational risk is very important for a company. We will discuss this problem at the back. Generally, with the sales volume increasing, the operators will soon increase input material costs and inventory, such as machine, employees, factories, outlets. However, the market is always changing, when the demand plummeted, the business must shrink size and reduce the cost immediately, but it is so difficult in fact. In the fiscal year of 2009 to 2010, the net profit rose 17% in the fiscal year. But, the next year, make Li Ning terrorist thing happened. From the table, we can found that 2011 is the turning point of a flourish to decline. Its revenues down about 7% and net profit reduce 75% in this period. That would be a crushing blow at the beginning. In the continuous deterioration of Li Ning, from2009to 2012, its revenues accounted for 79%, and the net lossaccounted for209% of net profit. Li Ning Company is close to collapse. This year, Li Ning Company a lot of stores closed in China;this is perhaps what we have felt most deeply. In 2013, we saw the Li Ning has reduced cost and expenses, but it still can't stop the decline.

According to the dates from Annex2 and horizontal analysis algorithms, we got table 4.2 here.

Table 4.2 Horizontal common-size analysis of assets

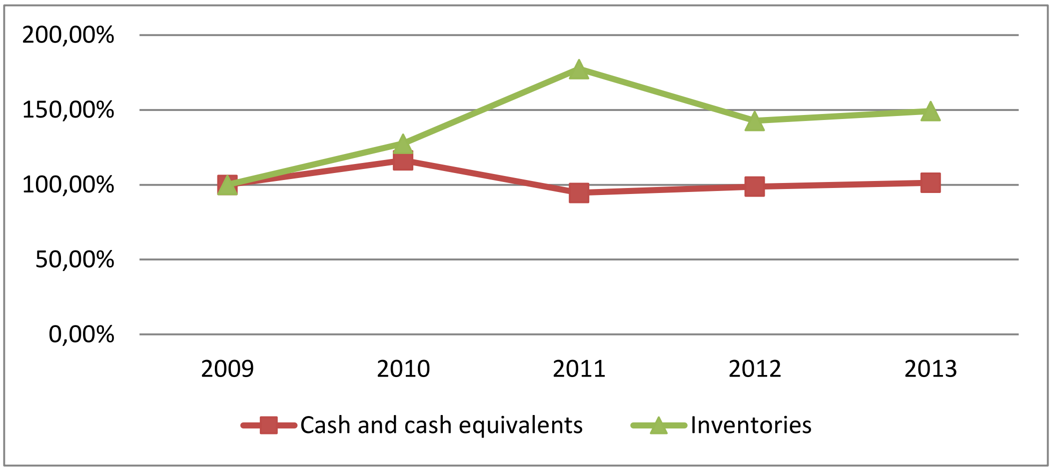
Year	2009	2010	2011	2012	2013
Total assets	100.00%	121.95%	136.09%	111.93%	111.88%
Total Current Assets	100.00%	132.62%	150.83%	123.52%	125.29%
Accounts receivable	100.00%	150.80%	195.85%	139.09%	128.22%
Cash and cash equivalents	100.00%	116.30%	94.63%	98.75%	101.29%
Inventories	100.00%	127.56%	177.31%	142.73%	149.22%
Total Non-current Assets	100.00%	106.74%	115.06%	95.40%	92.75%
Property, plant and equipment	100.00%	112.91%	130.32%	134.38%	123.96%
Intangible assets	100.00%	93.58%	86.43%	48.67%	43.79%
Fixed assets	100.00%	107.44%	117.36%	119.02%	111.47%
Investment	--	100%	128.08%	126.11%	128.76%

Source: Own calculation

First of all, let us look at the change of the total assetsthese five years, compared with the total assets of 2009, increased by 21% in 2010.Also has a small growth in 2011, the contribution is from the increase of the debt.Althoughcompared with 2009 that the total assets of 2012 increased by eleven percent.Relative to 2010, the total assets of 2010 fell by more than ten percent. Compared with 2010, the ratio down more than twenty percent.In 2013, date roughly the same as 2012.There is an element change trend is very typical, is the intangible assets.Intangible assets are the intrinsic value of an enterprise.This has been declining for five years, last year only forty-three percent of the 2009.

We extracted two important elements from table 4.2 and made chart 4.2. In order to more clearly understand the change trend.

Chart 4.2 Horizontal common-size analysis of assets



Source: Own calculation

Now Let us compare the change of inventory and cash (cash and cash equipment). From 2009 to 2010, the inventories have increased up to 27%, but the cash and cash equipment have increased up to 16 % in this fiscal year. Although we didn’t know these inventories will be digested or not eventually, we can see the date of next year. Compared with 2009, the inventories have increased up to 77%, but the cash and cash equipment have decreased down to 6% in 2011. This reminds us that it is a wrong market assessment. In addition, this could be the results of the accumulation of inventory. All in all, the phenomena were very harmful to a company. Compared with 2009, next fiscal year,the inventories have increased up to 42%, butit has decreased down to 35% compared with 2010. In 2011, the cash and cash equipment have decreased down to 2%, obviously, and the company has adjusted in this year. In 2013, the inventories have increased up to 49%, the cash and cash equipment have increased up to 1%, after the adjustment played a certain role. In addition, the shape of the total current liabilitiesillustrates our point of view next part.We checked the information about Li Ning Company, during 2008 and 2009, the inventories have decreased down to 3 %, but the cash and cash equipment have increased up to 60 % in this fiscal year. This was a good phenomenon for Li Ning Company.

Based on the dates from Annex 2 and horizontal analysis algorithms, we got table 4.3 here.

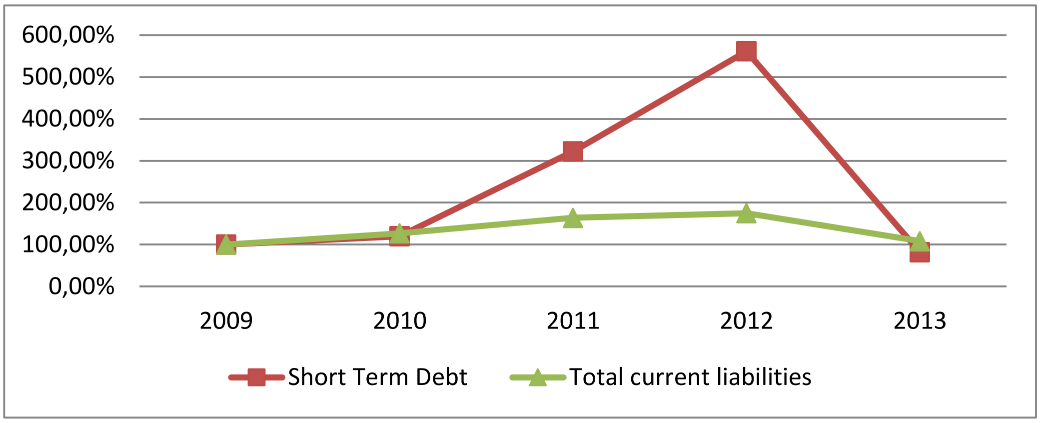
Table 4.3 Horizontal common-size analysis of Liabilities and Equity

Year	2009	2010	2011	2012	2013
Total Liabilities	100.00%	119.21%	145.25%	167.24%	124.22%
Total current liabilities	100.00%	126.99%	163.71%	175.03%	108.19%
Total non-current liabilities	100.00%	96.92%	92.36%	144.92%	170.15%
Total Debt	100.00%	120.11%	322.37%	812.13%	407.06%
Long Term Debt	--	--	--	100%	129.79%
Short Term Debt	100.00%	120.11%	322.37%	561.47%	81.74%
Accounts Payable	100.00%	144.11%	176.95%	116.28%	110.59%
Taxes payable	100.00%	115.75%	16.71%	2.17%	8.34%
Total Equity	100.00%	124.36%	128.04%	63.32%	101.04%
Total liabilities and equity	100.00%	121.95%	136.09%	111.93%	111.88%

Source: Own calculation

Only through careful observation and analysis can we find out what the problem is. Due to the lack of long-term debt data, we only have to analysis by short-term debt and understand the Li Ning company's fundamentals. From table 4.3 we can know it has increased up to 20 % from 2009 to 2010. From 2009 to 2011, the growth rate of 222.37%. This underlined that Li Ning Company encountered financial difficulties in this year. It is unbelievable that the rate continued to decline next fiscal year, the value is 561.47% compared with 2009. It is comforting that short term debt has decreased down to 81 % in 2013. We extracted two important elements from table 4.3 and made chart 4.3. In order to more clearly understand the change trend.

Chart 4.3 Horizontal common-size analyses of Liabilities and Equity



Source: Own calculation

The shapes of the two curves are roughly the same. The different is that short term debt curve was very steep, and the total current liabilities appear smooth. Two curves reflect five years the fundamentals of Li Ning Company. Company shrink scale in 2013, the production and sales far less than in 2009, but the short-term debt and total current liabilities were roughly equal to 2009. The number of debts reached to peak. All dates tell us that the company hit bottom from 2010 to 2012.

4.1.2 *Vertical common-size analysis*

Now, let us pay attention to the vertical common-size analysis of Li Ning Company. From this part, we can see the each factors accounting for the proportion of main factors, obviously. We start from income statement of Li Ning Company.

According to the dates from Annex1 and vertical analysis algorithms, we got table 4.4 here.

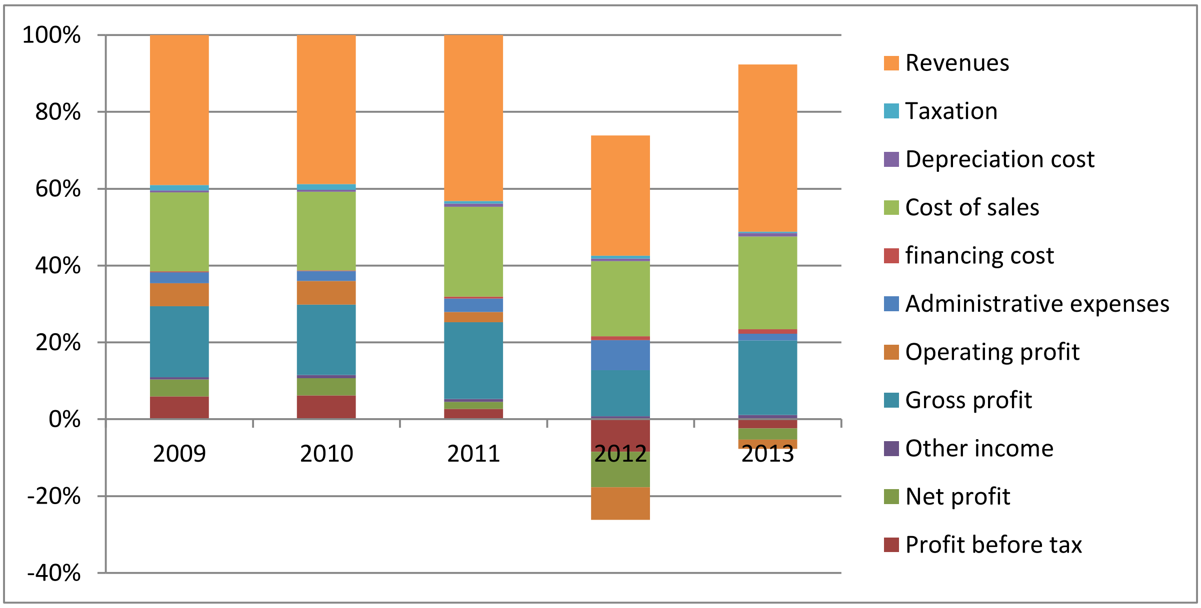
Table 4.4 Vertical common-size analysis of Income statement

Year	2009	2010	2011	2012	2013
Profit before tax	15.30%	15.93%	6.16%	-27.05%	-5.45%
Net profit	11.26%	11.69%	4.34%	-29.64%	-6.72%
Other income	1.52%	2.05%	1.61%	2.53%	2.52%
Gross profit	47.33%	47.28%	46.30%	38.19%	44.54%
Operating profit	15.30%	15.93%	6.18%	-26.97%	-5.48%
Administrative expenses	7.19%	6.52%	8.07%	25.10%	4.05%
financing cost	0.79%	0.55%	1.12%	3.13%	2.72%
Cost of sales	52.67%	52.72%	54.17%	62.74%	55.46%
Depreciation cost	1.12%	1.21%	1.78%	2.12%	2.19%
Taxation	3.74%	3.98%	1.53%	2.24%	0.72%
Revenues	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own calculation

Based on the dates from table 4.4, we make chart 4.4 here.

Chart 4.4 Vertical common-size analysis of Income statement



Source: Own calculation

From chart 4.4, it is very clear to see the proportion of each item of revenues changed in the 5 years. From the proportion about gross profit, we can see that Li Ning company unit of goods is very profitable. It is able to account for about forty-five % of the revenues. This is a very high proportion. Let us pay attention to the net profit, obviously, Corresponds to the previous horizontal common-size analysis. It maintained at more than 11% in the year of 2009 and 2010. Plunged to 4% in 2011, fell in bottom in 2012. This year the net profit accounted for -29%, and next year accounted for -6% of the turnover. Roughly, profit before tax same with the net profit.

In general, the cost of revenue plays an important part and most of proportion of turnover. Li Ning Company is no exception, in addition to the cost of sales accounted for 62% in 2012; other four years are maintained at around 54%. These we can be seen in depreciation. Depreciation just accounted for 1% of the turnover in 2009 and 2010, but starting in 2010, it accounted for more than 2%. From the administrative expenses, its proportion was as high as 25% in 2012. Obviously, the company has carried on the internal reorganization in 2013. This year just accounted for 4% of the turnover. From 2009 to 2011, administrative expenses accounted for 7% of the turnover.

According to the dates from Annex 2 and vertical analysis algorithms, we got table 4.5 here.

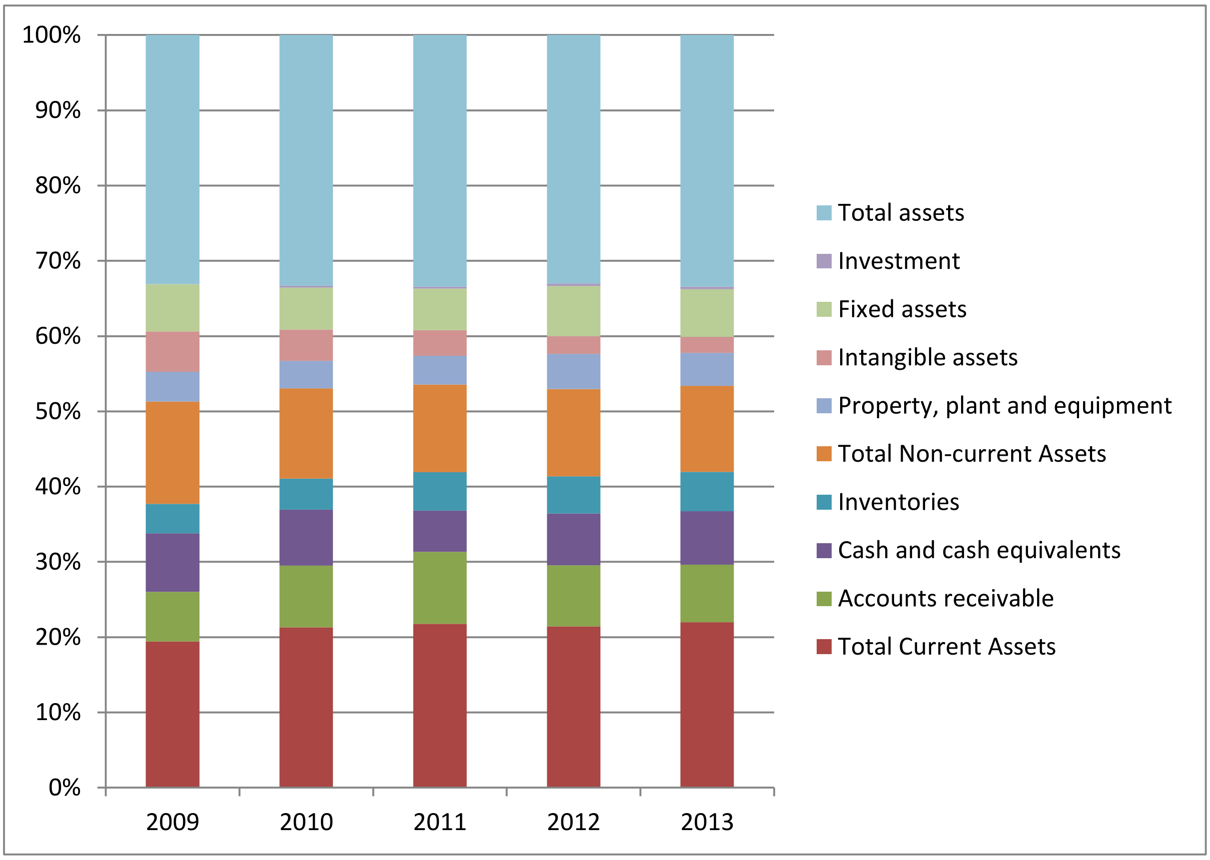
Table 4.5 Vertical common-size analysis of assets

Year	2009	2010	2011	2012	2013
Total Current Assets	58.80%	63.94%	65.16%	64.88%	65.84%
Accounts receivable	19.89%	24.59%	28.62%	24.71%	22.79%
Cash and cash equivalents	23.51%	22.42%	16.35%	20.74%	21.28%
Inventories	11.74%	12.28%	15.30%	14.97%	15.66%
Total Non-current Assets	41.20%	36.06%	34.84%	35.12%	34.16%
Property, plant and equipment	11.87%	10.99%	11.36%	14.25%	13.15%
Intangible assets	16.18%	12.41%	10.27%	7.03%	6.33%
Fixed assets	19.06%	16.79%	16.43%	20.26%	18.99%
Investment	0.00%	0.72%	0.82%	0.98%	1.00%
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own calculation

Based on the dates from table 4.5, we make chart 4.5 here.

Chart 4.5 Vertical common-size analysis of assets



Source: Own calculation

As the Li Ning Company each partition performance decline, we can see inventory has been on the rise from 2009 to 2013. On the other hand, the intangible assetsaccounted for the proportion of total assets to 6% in 2013. We have horizontal common-size analyzed the company last part, now easier for us to explain everything presented here. The change of the whole data is very delicate, excluding cash and cash equivalents. In 2011, the proportion of cash and cash equivalents has down to 16 %.

Based on the dates from Annex 2 and vertical analysis algorithms, we got table 4.6 here.

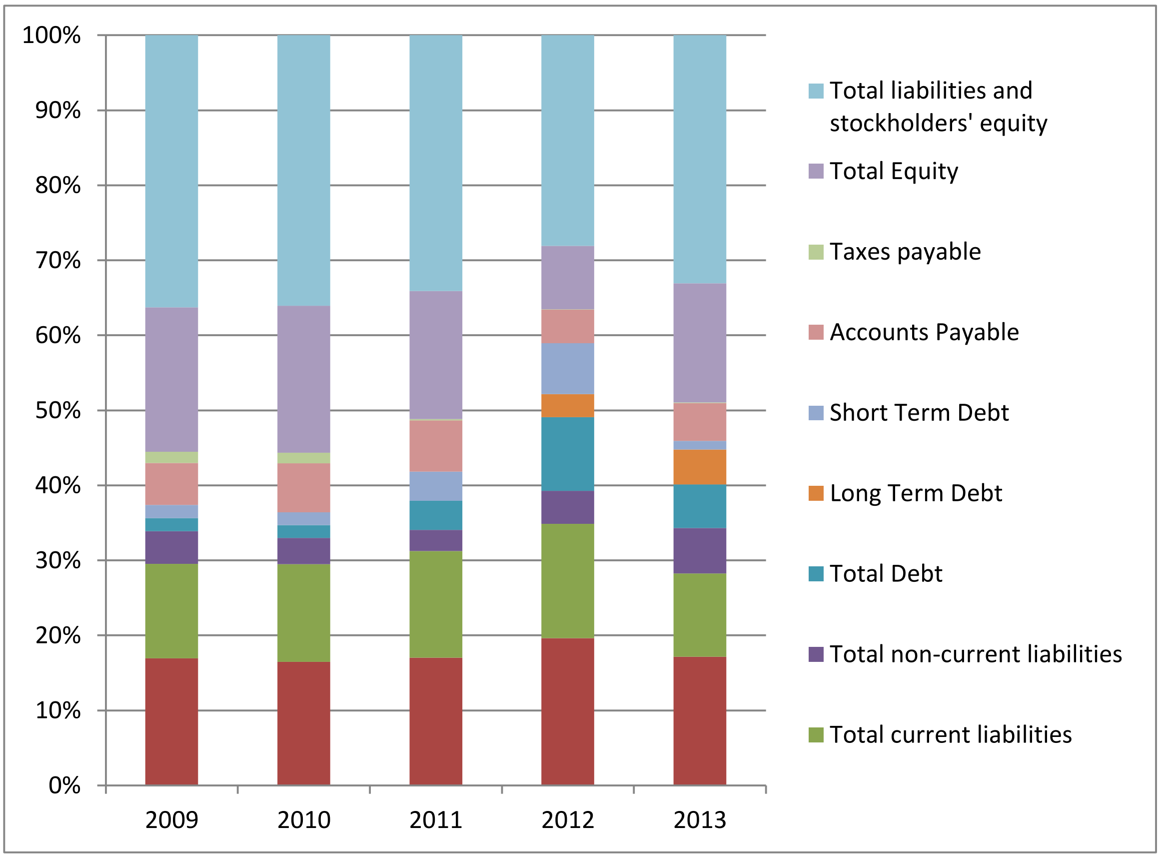
Table 4.6 Vertical common-size analysis of liabilities and equity

Year	2009	2010	2011	2012	2013
Total Liabilities	46.78%	45.73%	49.93%	69.89%	51.94%
Total current liabilities	34.68%	36.11%	41.71%	54.23%	33.53%
Total non-current liabilities	12.10%	9.62%	8.21%	15.67%	18.40%
Total Debt	4.83%	4.76%	11.45%	35.07%	17.59%
Long Term Debt	0.00%	0.00%	0.00%	10.83%	14.06%
Short Term Debt	4.83%	4.76%	11.45%	24.25%	3.53%
Accounts Payable	15.37%	18.16%	19.98%	15.96%	15.19%
Taxes payable	4.09%	3.88%	0.50%	0.08%	0.31%
Total Equity	53.22%	54.27%	50.07%	30.11%	48.06%
Total liabilities and equity	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own calculation

Based on the dates from table 4.6, we made chart 4.6 here.

Chart 4.6 Vertical common-size analyses of liabilities and equity



Source: Own calculation

Based on the table 4.6 and chart 4.6, first of all, let us look at the five years of data about the total liabilities and total equity. From 2009 to 2013, total debt is equal to total equity; they have half of it excluding 2012. In 2012, total liabilities accounted for 70% of total assets, total equity just accounted for 30%. About the long term debt, in 2009 and 2011 it accounted for 0%. But it accounted for 11% in 2012, and it accounted for 14% in 2013.To summarize, these tables and charts tell us company five years of development, from boom turn into doom. Although in 2013 the company adopted a series of measures, but the effect is not obvious. The reasonswe know, afull review will follow. By means of vertical analysis, some trends over time have been identified as to the balance sheets and income statement items. More detailed results can be obtained by the use of financial ratio analysis which is included in the next chapter.

4.2 Financial ratio analysis

The methods introduced in chapter 2 which about financial ratio will be used to analyze Li Ning Company in this part. We calculate financial ratios on the basis of the company's financial statements (Annexes 1-9). The main item which will be used includes equity, total assets, total liabilities, revenue and so on. It is presented in the following text.

4.2.1 *Liquidity ratios*

(A) Current ratio

Current ratio is a standard to evaluate working capital of Li Ning. According to formula 2.1, we calculate the ratio of each year, and get the following table 4.7.

Table 4.7 Current ratio of Li Ning Company from 2009 to 2013

Year	2009	2010	2011	2012	2013
Current ratio	1.70	1.77	1.56	1.20	1.96

Source: Own calculation

Now we can look at the current ratio of Li Ning Company. During the 2009 and 2010, current ratio both more than 1.7, and inventory growth rate is very low. If current ratio greater than 1.5 but smaller than 2, which means the company's asset liquidity is plain. Hence, it told us that Li Ning company's liquidity relatively good. But it should be noticed that current ratio have decreased down to 1.20 in 2012. The figure is much lower than 1.5. In addition, in previous common-size analysis, we found the company's inventory increase rate is very high during the period. Inventory as part of the current assets, hence, we know the current ratio is inflated during the 2011 and 2012. Inventories of Li Ning have huge stockpiles of goods in the period.

(B) Quick ratio

Quick ratio is use for eliminates inventory and othercurrent assets from the denominator of Li Ning. On the basis of the formula 2.2, we calculate the ratio of each year, and get the following table 4.8.

Table 4.8 Quick ratio of Li Ning Company from 2009 to 2013

Year	2009	2010	2011	2012	2013
Quick ratio	1.36	1.43	1.20	0.92	1.50

Source: Own calculation

In the second chapter we already know the optimal quick ratio is 1:1, which means that if the company to borrow a unit of currency current liability, there is a unit of easy-to-tap assets immediately, which means that current liabilities can be met from current assets without the need to sell inventory. This is a very ideal stat. From the chart above, we can see the quick ratio of Li Ning Company more than 1 from the 2009 to 2011. In the period, the Company is out to capture some free assets, not to invest. We thinkit fit traditional habits of China, Chinese people love savings.

(C) Cash ratio

Cash ratio is to measure the liquidity of Li Ning Company's assets. On the basis of the formula 2.3, we calculate the ratio of each year, and get the following table 4.9 here.

Table 4.9 Cash ratio of Li Ning Company from 2009 to 2013

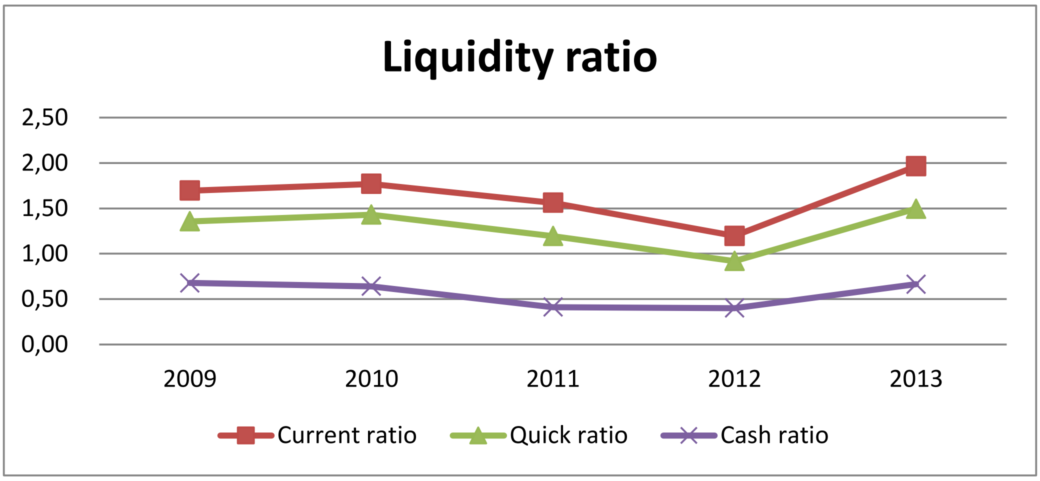
Year	2009	2010	2011	2012	2013
Cash ratio	0.68	0.64	0.41	0.40	0.66

Source: Own calculation

The cash is the most mobile part of enterprise assets, and always is the foundation and prerequisite to keep the enterprises operating smoothly. In general, 0.2 is the optimum cash ratio.The company's funds have always been enough, because the upfront capital is abundant. For a long period of time, in the eyes of Chinese consumers, the Li Ning brand is the symbol of the nation. Since listing in Hong Kong in June 2004, Li Ning Company maintains high growth for six consecutive years. Li Ning sportswear dressed in its own brand lit the Olympic torch under the eyes of billions of people, which is the golden age of Li Ning. This year, Li Ning, the company's revenue was 6.69 billion CHY, only a year later, rose to 8.387 billion CHY, with the irresistible force of the trend over the Adidas about 70 billion in sales. Li Ning Company revenue soared 0.54 in 2008, and exceeding the Adidas. From the table, obviously, the flushestyear is 2009. The assets have the sufficient liquidity in this year. Cash ratio fell to 0.64 in 2010 and it fell in 0.41 next year. This is acceptable for a healthy company. The liquidity of cash is undesirable in 2011. During the 2012 and 2013, cash ratio recovery step by step, but it is still more than 0.2.

According to the dates from table 4.7, table 4.8 and table 4.9, we made chart 4.8 here.

Chart 4.8 Liquidity ratio of Li Ning Company from 2009 to 2013



Source: Own calculation

On the basis of the three tables, we made this chart. Here we can more clearly see the trend. We can compare the three ratios, and then found the five-year funding liquidity of Li Ning Company. We can see the current ratio is inflated during the 2011 and 2012. Inventories of Li Ning have huge stockpiles of goods in the period. In 2013, current ratio up to 1.96, it means the company's asset liquidity is optimistic. Obviously, Li Ning Company was redesigned in the period. In 2012, quick ratio fell below 1, which means short-term repayment abilities become weak. However, the figure become to 1.5 in 2013. Maybe it just came from window dressing benefit.The three ratios tell us corporate liquidity works well before 2011. But the company encountered circulating pressure in 2011 and 2012. Then the company adopted a series of measures to save liquidity crisis, and gradually out of the cash flow pressure.

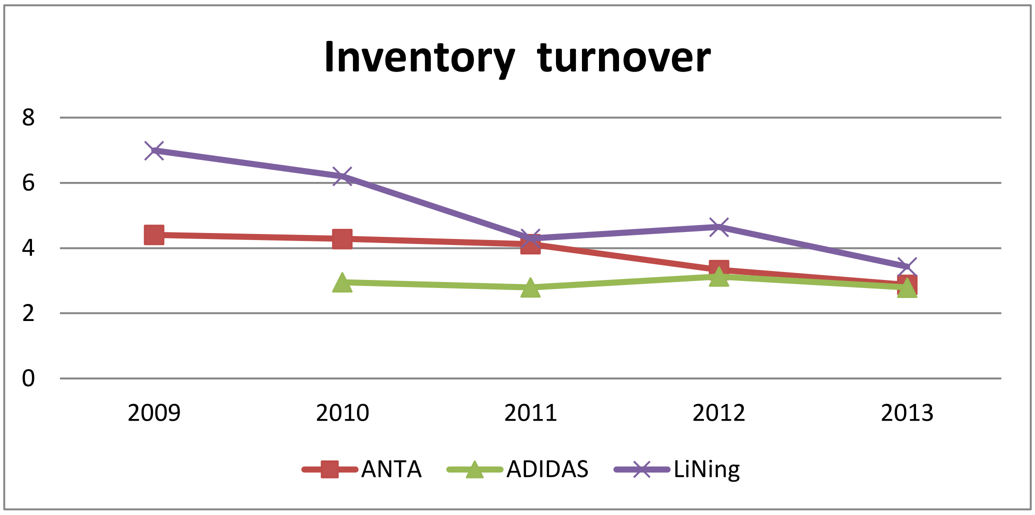
4.2.2 ***Asset management ratios (Activity ratios)***

We knew Li Ning and Anta have been arch rivals for a long time in domestic markets, and Li Ning and Adidas have been arch rivals in international markets. The two companies operate is relatively good in the industry. Both of it is optimal object for comparison.

(A) Inventory turnover

Inventory turnover shows us that how many times Li Ning Company's inventory is sold and replaced over a period. According to formula 2.4, we calculate the ratio of each year, and get the following chart 4.9.

Chart 4.9 Inventory turnover of Li Ning Company from 2009 to 2013



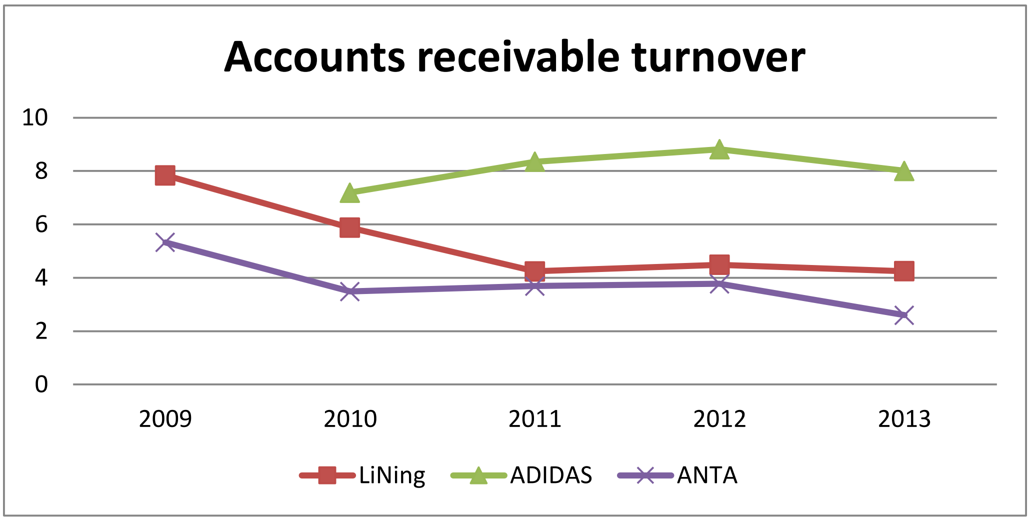
Source: Own calculation

Through the chart we can see clearly that Li Ning better than other company in inventory turnover. The company has stronger liquidation realizable value of inventories. But it is ability was declining in the 5 years. Adidas Company is very stable all the time. The sell at a discount may be the medicine of the Li Ning Company.

(B) Accounts receivable turnover

Accounts receivable turnover provides an indication of the resources tied up in accounts receivable and provides the speed at which receivables are collected for Li Ning. On the basis of the formula 2.5, we calculate the ratio of each year, and get the following chart 4.10.

Chart 4.10 Accounts receivable turnover of Li Ning from 2009 to 2013



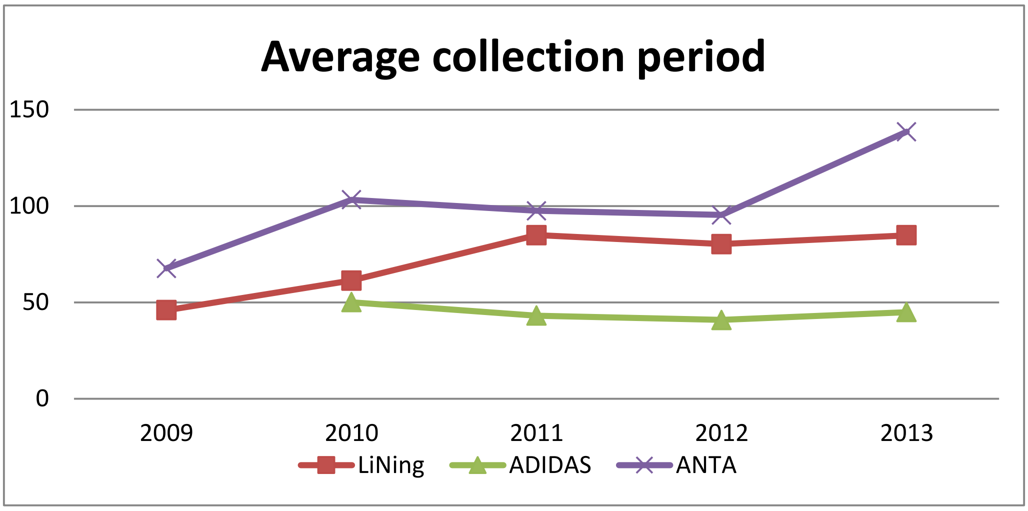
Source: Own calculation

The Li Ning Company in the middle level, it is disappointing that accounts receivable turnover has been declining. Adidas Company does a good job here. It is account recouped the fastest.

(C) Average collection period

For Li Ning Company, average collection period is a measure of how long it takes to recover the receivables. According to formula 2.6, we calculate the ratio of each year, and get the following chart 4.11.

Chart 4.11 Average collection period of Li Ning Company from 2009 to 2013



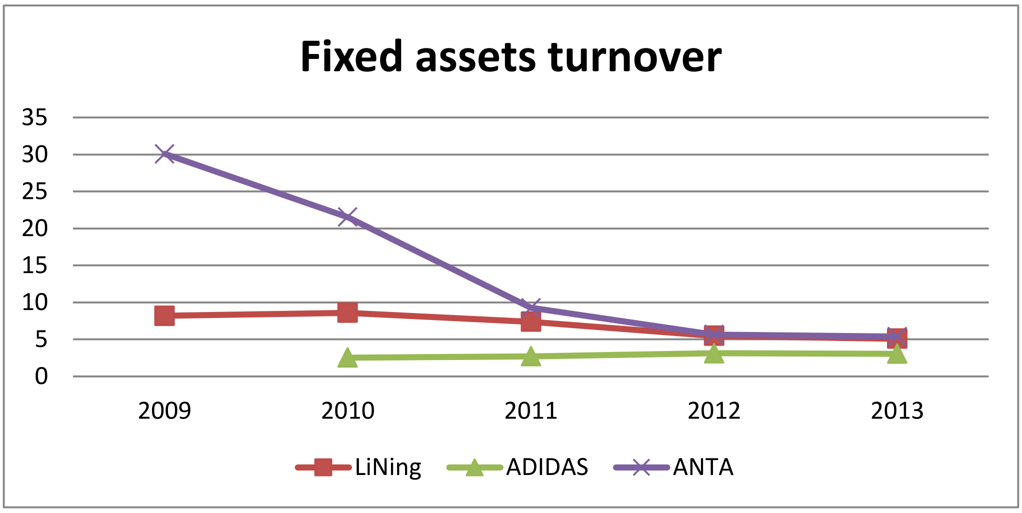
Source: Own calculation

The Li Ning Company in the middle level, the average collection period is 80 days now. Obviously, Adidas company to do the best in this aspect, it just need around 40 days. We should note that the period of Li Ning Company is more and more long.

(D) Fixed assets turnover

Fixed assets turnover measures Li Ning Company's ability to generate net sales from fixed assets investments. On the basis of the formula 2.7, we can get the following chart 4.12.

Chart 4.12 Fixed assets turnover of Li Ning Company from 2009 to 2013



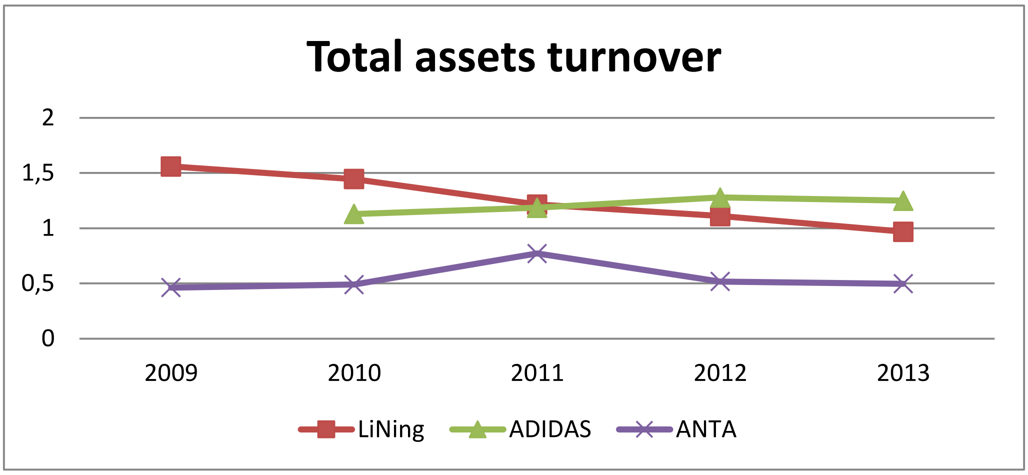
Source: Own calculation

Although Li Ning Company remains over 5, it continues to decline all the time. The higher the ratio, the better, because a high ratio indicates the business has less money tied up in fixed assets for each unit of currency of sales revenue. A declining ratio may indicate that the business is over-invested in plant, equipment, or other fixed assets. Adidas Company is always very stable.

(E) Total assets turnover

According to formula 2.8, we calculate the ratio of each year, and get the following chart 4.13.

Chart 4.13 Total assets turnover of Li Ning Company from 2009 to 2013



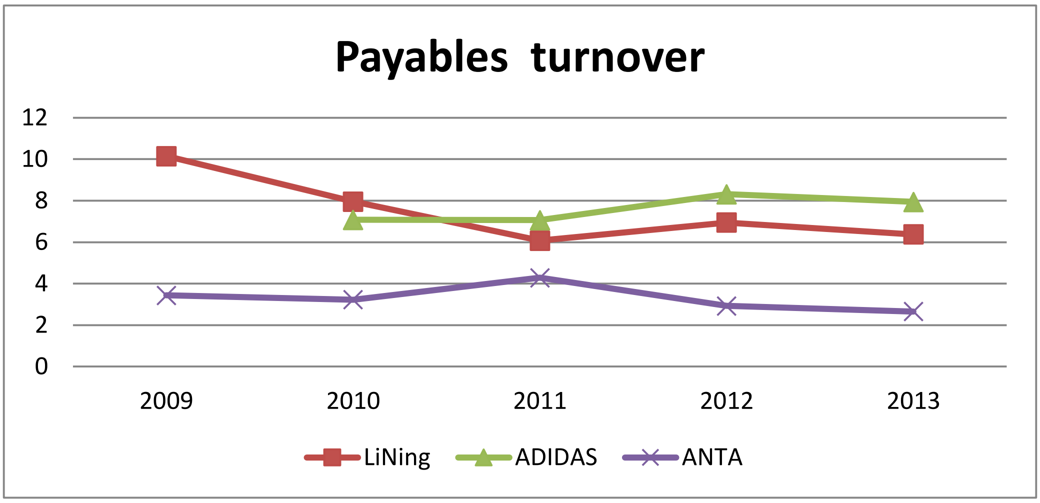
Source: Own calculation

The Li Ning Company started in a leading level, but has been falling during the 5 years. Total assets turnover of Adidas always keep at about 1.2. Recently, Li Ning Company had been decreased down less 1. Maybe it is a bad sign for a company. Companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover. Companies in the retail industry tend to have a very high turnover ratio due mainly to cutthroat and competitive pricing.

(F) Payables turnover

Payable turnover reflects the ability of the Li Ning supply free use of corporate funds. According to formula 2.9, we calculate the ratio of each year, and get the following chart 4.14.

Chart 4.14 Payables turnover of Li Ning Company from 2009 to 2013



Source: Own calculation

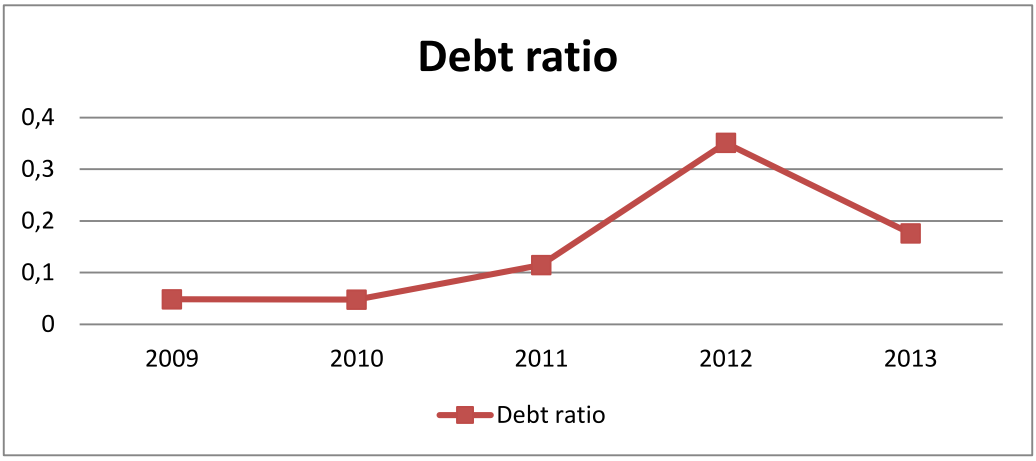
From chart 4.14, we can easily notice that payables turnover has decreased from 2009 to 2011 and from 2012 to 2013, which means the company was spending much longer at paying off its supplier 2009 than paying off in 2011 or the other period.

4.2.3 *Leverage ratios*

(A) Debt to assets

On the basis of the formula 2.10, we calculate the ratio of each year, and get the following chart 4.15.

Chart 4.16 Debt to assets of Li Ning Company from 2009 to 2013



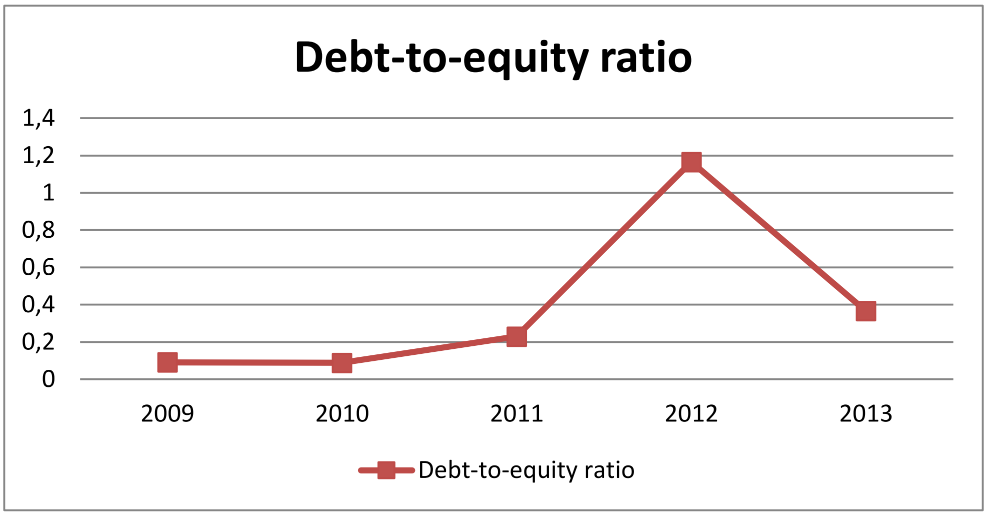
Source: Own calculation

We can see the shadow of the common-size analysis previously. From 2009 to 2011, the ratio was stable, and it just has a rose slightly in 2011. Since 2011, the ratio has been more than 10%. Even it proportion of debt to total assets as high as 35% in 2012. The company encountered a debt crisis in 2012. Fortunately, the company came out of the debt crisis next year. The ratio came back to 15% in 2013.

(B) Debt to equity

Based on the formula 2.11, we calculate the ratio of each year, and get the following chart 4.17.

Chart 4.17 Debt to equity of Li Ning Company from 2009 to 2013



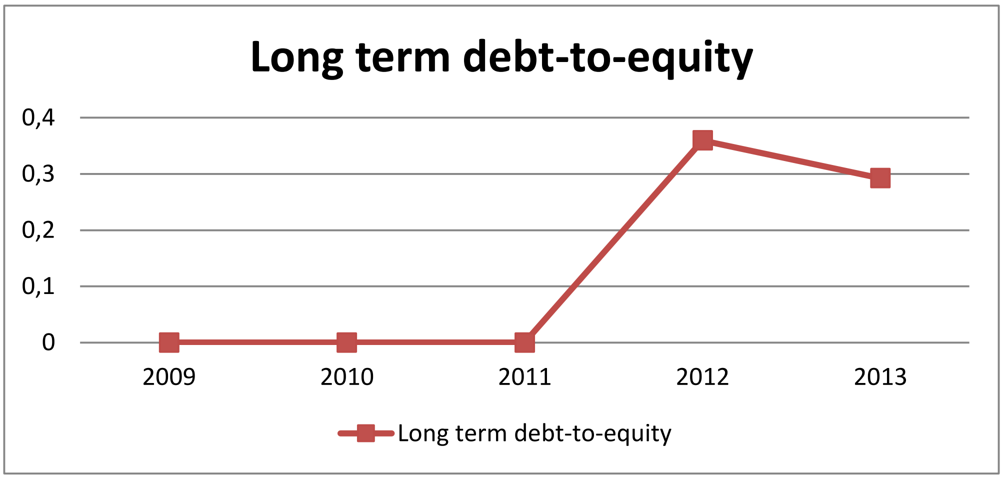
Source: Own calculation

Normally, the ratio of debt to equity moves in step with ratio of debt to assets. They are exactly the same. From chart 4.17, we also can see the shadow of the common-size analysis previously. From 2009 to 2011, the ratio was stable, and it just has a rose slightly in 2011.The proportion has been more than 1 in 2012; the company encountered a debt crisis. Fortunately, the company came out of the debt crisis next year. The proportion came back to 0.4 in 2013.

(C) Long-term debt to equity

According to formula 2.12, we calculate the ratio of each year, and get the following chart 4.18.

Chart 4.18 Long term debt of Li Ning Company from 2009 to 2013



Source: Own calculation

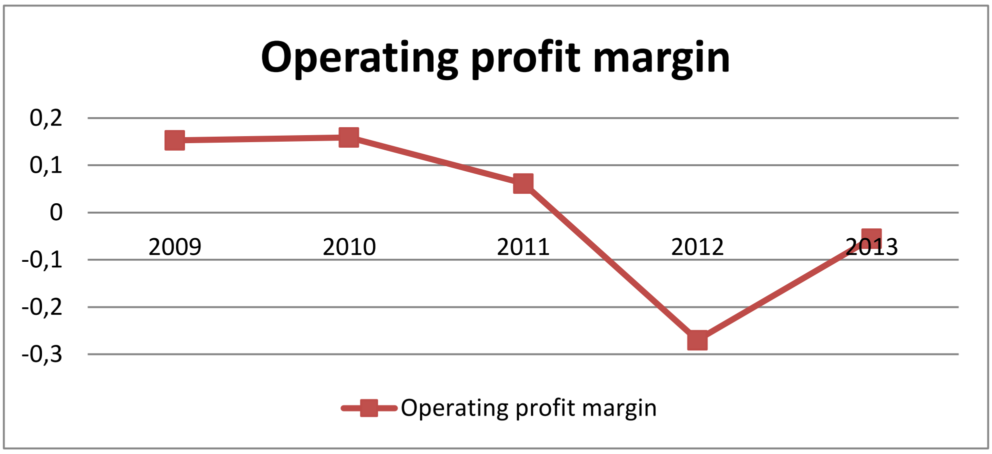
From chart 4.18, we know Li Ning Company operating well, capital is very healthy before 2010. Long-term debt always is zero before 2011. Through the analysis of the pervious chapter, we knewthe company encountered a debt crisis in 2012. Since 2012, Li Ning Company has been borrowed long-term debt. Although we can't judge whether this is a good thing or a bad thing, now situation is gloomy for Li Ning Company.

4.2.4 Profitability ratios

(A) Operating profit margin

According to formula 2.13, we calculate the ratio of each year, and get the following chart 4.19.

Chart 4.19 Operating profit margin of Li Ning Company from 2009 to 2013



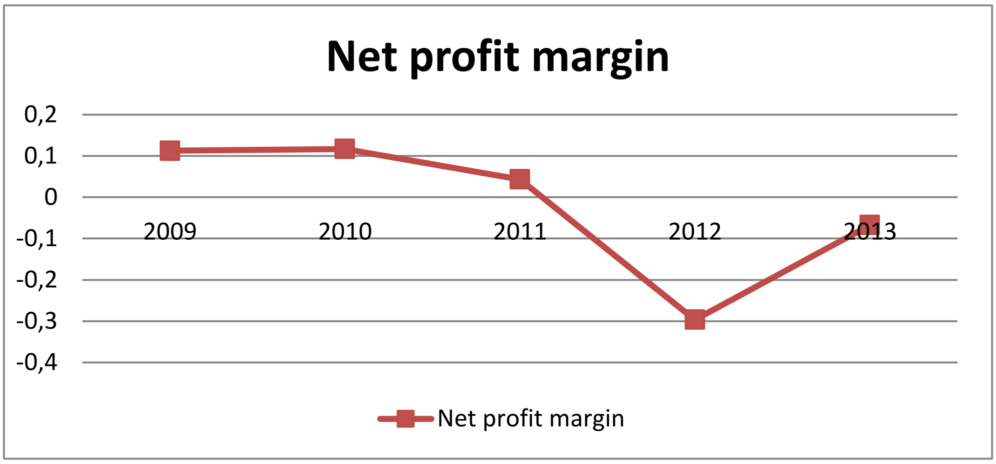
Source: Own calculation

As I have said before, Li Ning Company had experienced a wonderful period, then fall to the bottom. It was a shattering experience. We can see from 2008 to 2010 is the wonderful period of Li Ning company. Since 2010, the company began a sharp decline that saw it drift to the margins of the Shoes and Clothing industry. The operating profit margin close to -0.3 in 2012, which means Li Ning Company was running at a huge loss. Although in 2013 the company adopted a series of measures, the effect is obvious. Corporate profits not as before.

(B) Net profit margin

Net profit margin is an important indicator reflecting the profitability of the Li Ning Company. On the basis of formula 2.14, we calculate the ratio of each year, and get the following chart 4.20.

Chart 4.20 Net Profit margin of Li Ning Company from 2009 to 2013



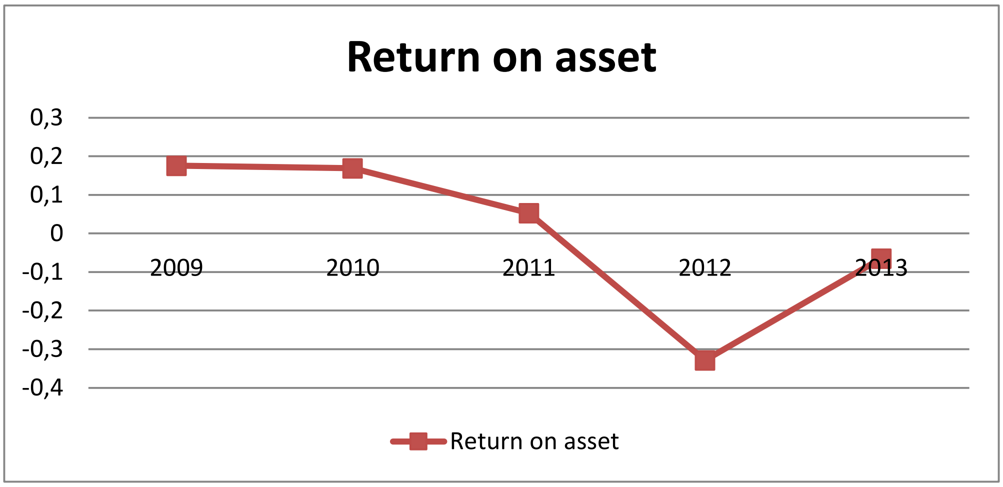
Source: Own calculation

The net profits margin same with operating profit margin in certain. They are exactly the same. Since 2010, the company began a sharp decline that it drifts to the margins of theShoes and Clothingindustry. The operating profit margin close to -0.3 in 2012, which means Li Ning Company was running at a huge loss. Although in 2013 the company adopted a series of measures, the effect is obvious. Corporate profits not so high as before.

(D) Return on assets

On the basis of formula 2.15, we calculate the ratio of each year, and get the following chart 4.21.

Chart 4.21 Return on assets of Li Ning Company from 2009 to 2013



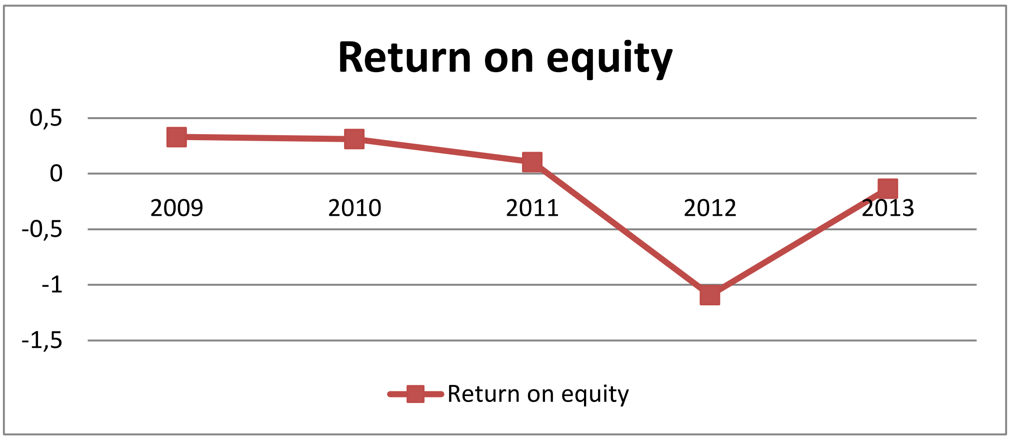
Source: Own calculation

Here we can see the proportion is negative from 2012 to 2013. The reason is the company do blindly pursued the expansion of production scale, but in the brand's credibility and reputation become decrease in the case, the demand decrease in the market. There is a huge error that company to evaluate market. Much remained to be done, if the company want to revive.

(E) Return on equity

According to formula 2.16, we calculate the ratio of each year, and get the following chart 4.22.

Chart 4.22 Return on equity of Li Ning Company from 2009 to 2013



Source: Own calculation

Like the return on assets above, we can see the proportion is negative from 2012 to 2013, which has the same reason with return on assets. At least, the company develops invariably to a better direction now.

4.3 DuPont Analysis

The methods introduced in chapter 2 which about DuPont analysis will be used to analyze Li Ning Company in this part. DuPont analysis can help enterprise management more clearly see the determinants of return on equity capital, and the net profit margin,financial leverage and total asset turnover, provides a clear overview to management whether the company assets management efficiency and maximize shareholder returns roadmap.

Based on the dates from annex 1 and annex 2, we use the formula (2.8), (2.13), (2.14), to calculate and got table 4.10 here.

Table 4.10 DuPont analysis profit margin, total assets turnover and financial leverage

Year	2009	2010	2011	2012	2013
Total assets	5377870	6558491	7318736	6019572	6016851
Total equity	2862111	3559382	3664659	1812241	2891764
Revenues	8386910	9478527	8887453	6676441	5824110
Net profit	944524	1108487	385813	-1979114	-391540
Operating profit	1283130	1509514	548904	-1800516	-319414
Profit before tax	1283130	1509514	547377	-1805919	-317172
Taxation	313799	377378	136408	149480	42219
Minority interests	24807	23649	25156	23715	32149
Net profit/Total equity	0.3300	0.3114	0.1053	-1.0921	-0.1354
Net profit/Total assets	0.1756	0.1690	0.0527	-0.3288	-0.0651
Total assets/Total equity	1.8790	1.8426	1.9971	3.3216	2.0807
Revenues/Total assets	1.5595	1.4452	1.2143	1.1091	0.9680
Net profit/Revenues	0.1126	0.1169	0.0434	-0.2964	-0.0672

Source: Own calculation

About the ROE, here we can see the proportion is negative from 2012 to 2013. The reason is the company do blindly pursued the expansion of production scale, but in the brand's credibility and reputation become decrease in the case, the demand decrease in the market. There is a huge error that company to evaluate market. Much remained to be done, if the company want to revive. Generally, sales can determine the size of the net profit. Since 2010, the company began a sharp decline that it drifts to the margins of theShoes and Clothingindustry. The operating profit margin close to -0.3 in 2012, which means Li Ning Company was running at a huge loss. Although in 2013 the company adopted a series of measures, the effect is obvious. Corporate profits not as before. The Li Ning Company started in a leading level, but has been falling during the 5 years. Total assets turnover of Adidas always keep at about 1.2. Recently, Li Ning Company had been decreased down less 1. Maybe it is a bad sign for a company. Companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover. Companies in the retail industry tend to have a very high turnover ratio due mainly to cutthroat and competitive pricing.The financial leverage ratio (total assets divided by shareholders' equity) is an all-purpose debt gauge.Enterprise financial risk mainly depends on the size of the financial leverage coefficient of high and low. From 2011 to 2013, the dates of financial leverage far more than the first two years, which mean Li Ning Company undertake more risks about finance.

According to the dates from annex 1 and annex 2, we use the formula (2.16), (2.17) to calculate and got table 4.11 here.

Table 4.11 the five-component DuPont analysis

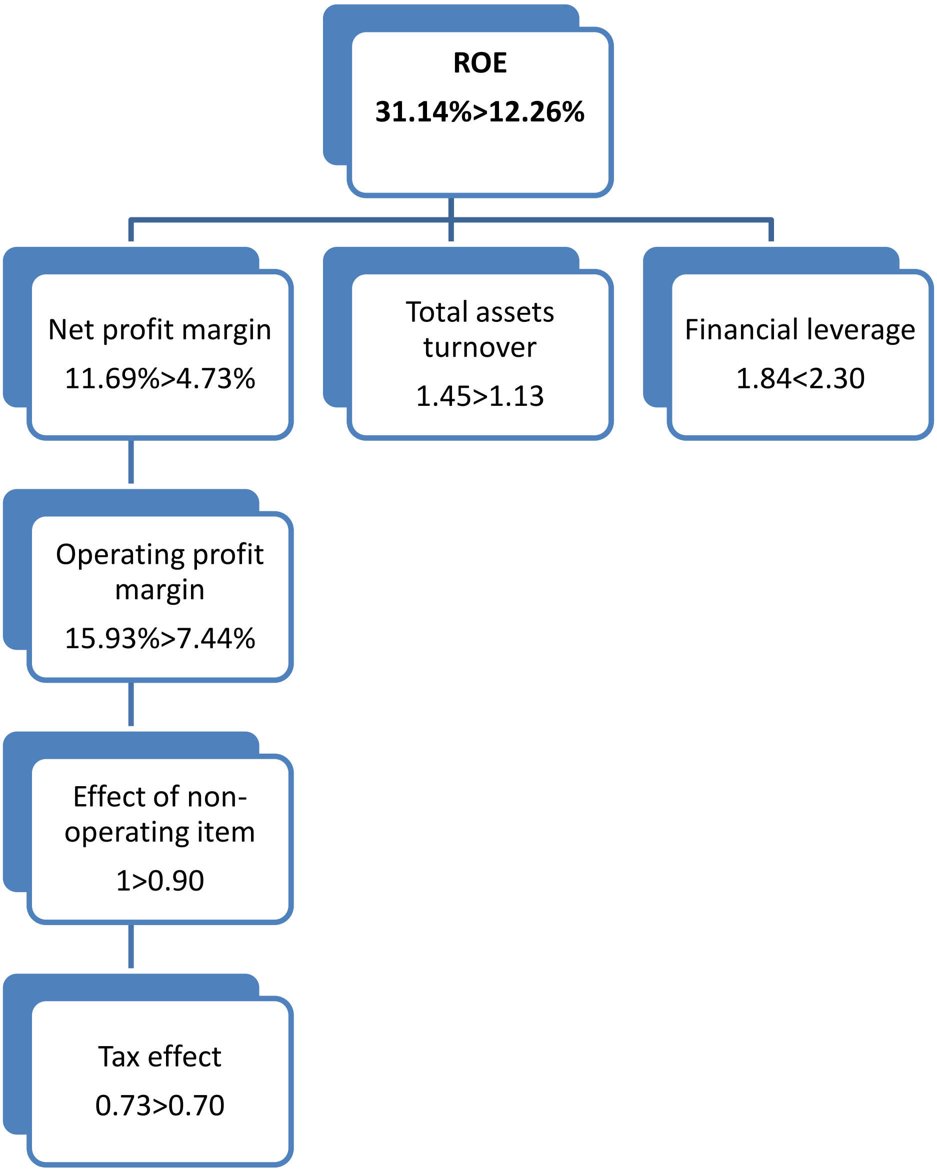
Year	2009	2010	2011	2012	2013
Net profit/Total equity	0.3300	0.3114	0.1053	-1.0921	-0.1354
Total assets/Total equity	1.8790	1.8426	1.9971	3.3216	2.0807
Revenues/Total assets	1.5595	1.4452	1.2143	1.1091	0.9680
Operating profit/Revenues	0.1530	0.1593	0.0618	-0.2697	-0.0548
EBT/Operating profit	1.0000	1.0000	0.9972	1.0030	0.9930
1-(Taxes/EBT)-(MI/EBT)	0.7361	0.7343	0.7048	1.0959	1.2345

Source: Own calculation

Li Ning Company had experienced an exuberant period, then fall to the bottom. It was a shattering experience. We can see from 2008 to 2010 is the exuberant period of Li Ning company. Since 2010, the company began a sharp decline that saw it drift to the margins of the Shoes and Clothing industry. The operating profit margin close to -0.3 in 2012, which means Li Ning Company was running at a huge loss. Although in 2013 the company adopted a series of measures, the effect is obvious. Corporate profits not as before. About effect of non-operating items, tax effect and interest effect, we will compare with Adidas Company later.

According to the dates from table 4.10, table 4.11, annex 7 and annex 8, we use the formula (2.16), (2.17) to calculate and got chart 4.23 here.

Chart 4.23 DuPont analysis structure chart in 2010

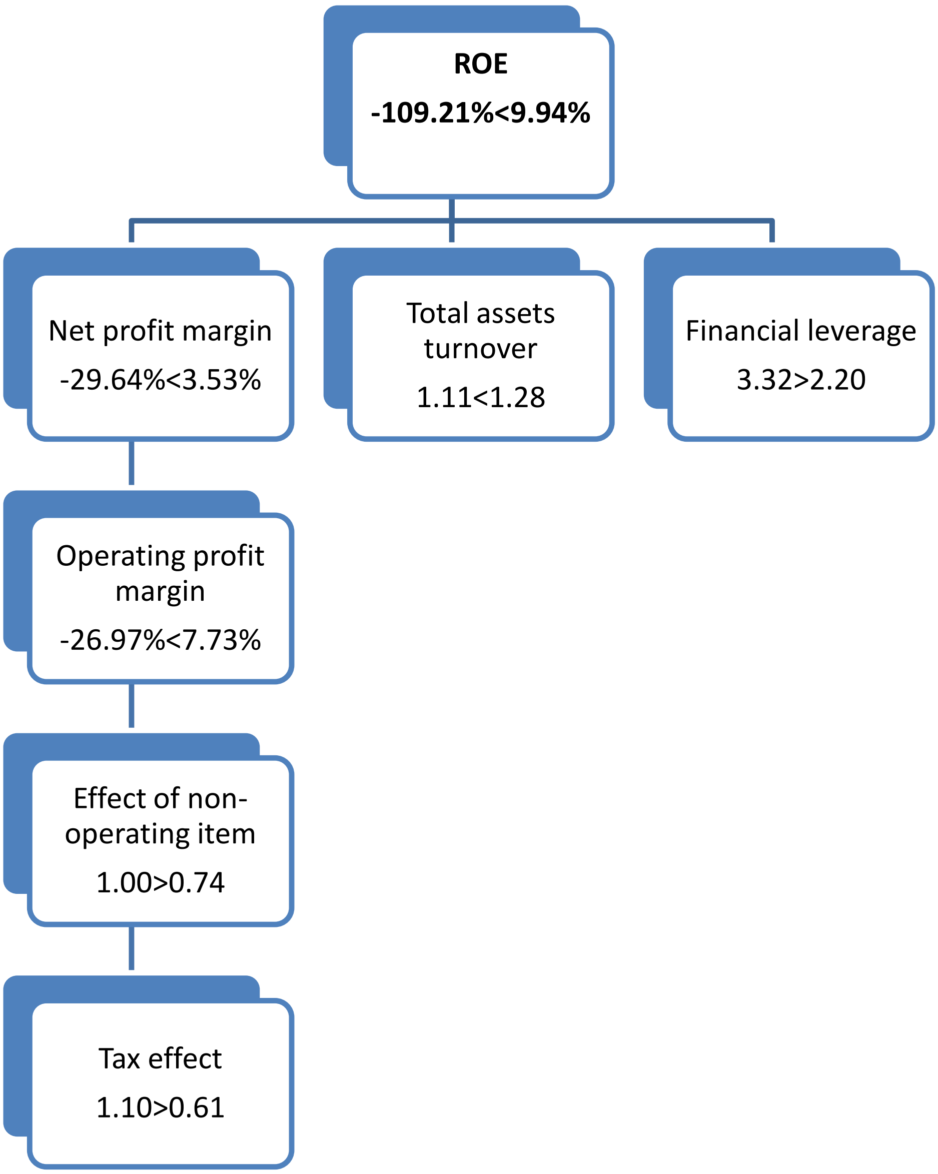


Source: Own calculation

According to calculation, we can get above structure charts here. On the left are Li Ning company's data, and data on behalf of Adidas Company on the right. As a whole, obviously, The Li Ning company's fundamentals were superior to the company of Adidas in 2010. First of all, about return of equity, Li Ning Company is as high as 31.14%, far exceeding the company of Adidas. Net profit margin can accurately reflect the cost control level of production and business operation activities, technical level and daily management system, etc. Li Ning company’s ratio up to 11.69% in 2010, which means earn￥0.1169 net profit per￥1 sale. The ratio of Adidas just was 4.73%. Li Ning Company's total asset turnover rate was a little higher than company of Adidas. On the face of it is good for Li Ning Company. In fact, Companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover. Companies in the retail industry tend to have a very high turnover ratio due mainly to cutthroat and competitive pricing. Li Ning Company’s financial leverage was 1.84, lower than the company of Adidas. Lower financial leverage means the liabilities degree of Li Ning companies are positive. Hence, company's financial leverage ratio is small for external financing. The company would bear the small risks. However, on the other hand, Lower financial leverage also means the efficiency is too low, and the capital from liabilities is not enough in Li Ning Company. Whether it is fixed asset turnover, current asset turnover or other asset turnover, Li Ning company were higher than the company of Adidas. There were enough assets for operation in 2010. On the other hand, which mean Li Ning Company control so much leisure capitals and nothing to do. The leisure capitals likes a knife with double-edged and the key is how to correct use it.

Based on the dates from table 4.10, table 4.11, annex 7 and annex 8, we use the formula (2.16), (2.17) to calculate and got chart 4.24 here.

Chart 4.24 DuPont analysis structure chart in 2012



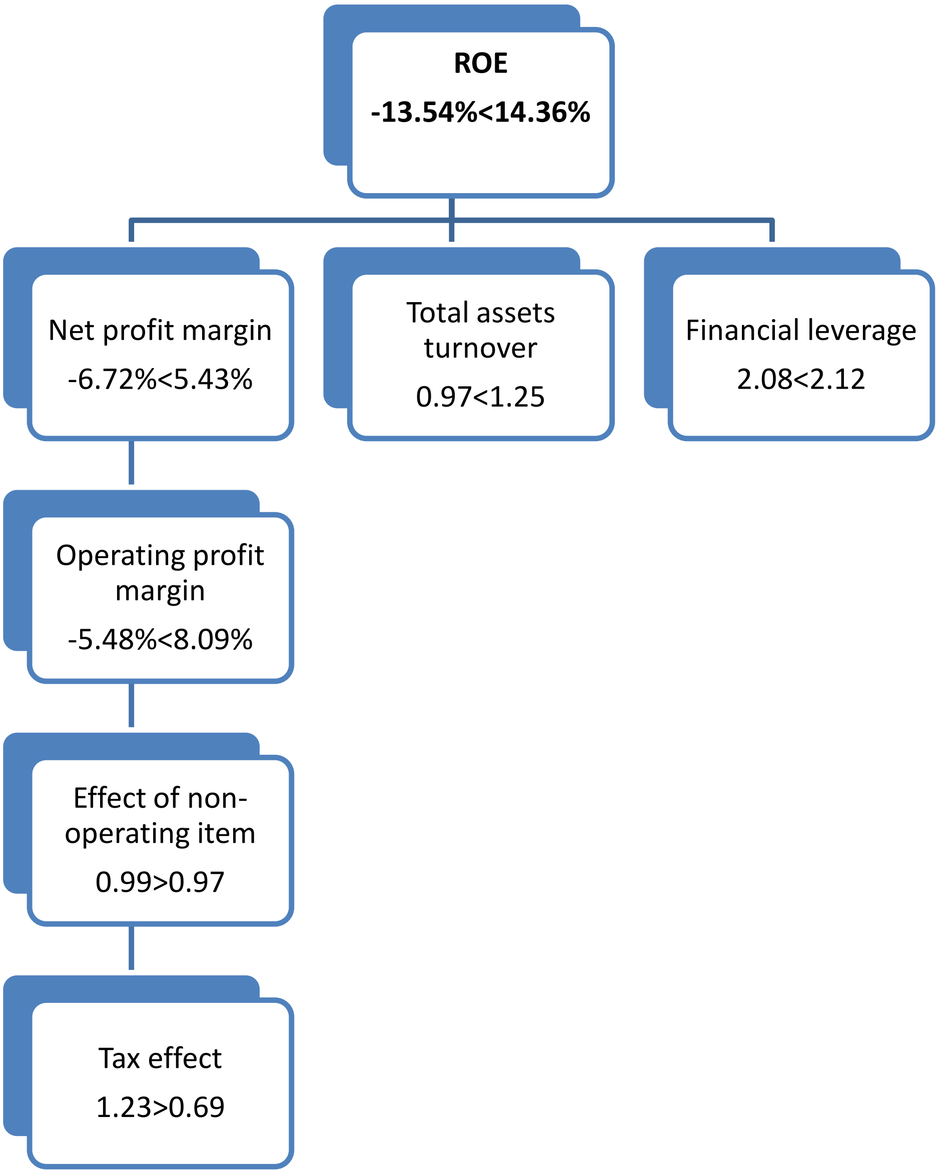
Source: Own calculation

And likewise, on the left are Li Ning company's data, and data on behalf of Adidas Company on the right.As a whole, obviously, The Li Ning Company's fundamentals were inferior to the company of Adidas in 2012. Li Ning Company fell to the bottom this year. Firstly, about return of equity, Li Ning Company is as low as -109.2%, far below the company of Adidas. Let us look at the net profit margin. Li Ning company’s ratio down to -29.3% in 2012, which means loss ￥0.293 net profit per￥1 sale. The ratio of Adidas was 3.53%. Li Ning

Company's total asset turnover rate was a lower than company of Adidas. Li Ning company’s financial leverage as high as 3.32, it lower than the company of Adidas. Higher financial leverage means the liabilities degree of Li Ning companies are negative. Hence, company's financial leverage ratio is high for external financing. The company would bear the high risks. However, if the financial leverage is high, the company can improve return on equity for stockholder. It will produce a positive incentive effect for stock value. Unlike 2010, both of fixed asset turnover and current asset turnover, Li Ning Company were lower than the company of Adidas. Obviously, there were lacking assets for operation in 2012. As I said earlier, the leisure capitals likes a knife with double-edged and the key is how to correct use it. Obviously, Li Ning Company made a mistake on the use of them in here. We can found that Li Ning company’s administrative expenses were large higher than company of Adidas in 2012. However, about the costs of goods sale and tax, Li Ning Company were lower than the company of Adidas. Which means Li Ning Company becomes less efficient suddenly. Based on the actual operation, "The wrong market evaluation", this policy had led to blind asset and outlet expansion. Eventually lead to many outlets closed down at the end of 2012.

According to the dates from table 4.10, table 4.11, annex 7 and annex 8, we use the formula (2.16), (2.17) to calculate and got chart 4.25 here.

Chart 4.25 DuPont analysis structure chart in 2013



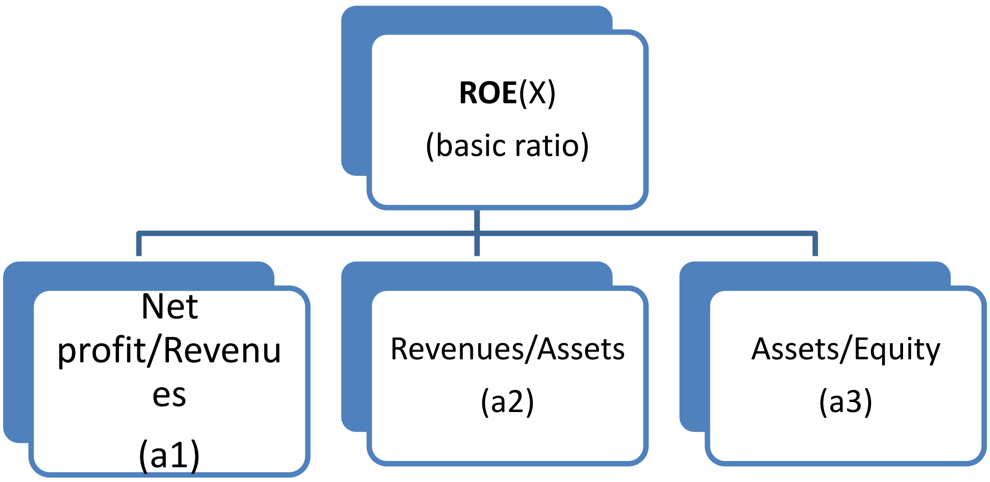
Source: Own calculation

Similarly, on the left are Li Ning company's data, and data on behalf of Adidas Company on the right. Since 2010, Li Ning Company's interest burden is slightly larger than the enterprise, indicates that the company under external capital pressure. This year, Li Ning Company compared with the previous year, the fundamentals have improved, but no longer back to the level of 2010 years ago.In fact the data here which can’t reflect to company sharply reduced size, a large number of fixed asset sales, tighten the funds. No matter subjectively or objectively, Li Ning Company has chosen to downsize, and also be forced to become smaller and more domestic. From the proportion of various element accounted for total costs, some deep problems can be reflected by analysis of the proportion. We can see it through another set of data; administrative expense was changing from 7.39% to 19.22% to 3.79% during these years. About changes of the costs of goods sale, it was changing from 59.7% to 48.05% to 51.97%. The proportion of administrative expense is the highest in 2010, and the company's benefit and fundamentals were too poor this year. Next year, the proportion reduced to 3.79%, Prove that rapid increase and decrease of Li Ning company's scale.

4.3.1 ***Method of gradual changes***

The methods introduced in chapter 2 which about analysis of gradual changes will be used to analyze Li Ning Company in this part.First of all, we made the structure chart show the basic ratio and component elements. According to formula 2.20, we can get four tables (table 4.13-table 4.16) here.

Chart 4.26 Structure chart



According to the dates from annex 1 and annex 2, and use formula 2.8, formula 2.14 and formula 2.18, we got the table 4.12.

Table 4.12 Absolute changes of basic ratio

X	33,00%	31,14%	10,53%	-109,21%	-13,54%
a1	0,1126	0,1169	0,0434	-0,2964	-0,0672
a2	1,5595	1,4452	1,2143	1,1091	0,9680
a3	1,8790	1,8426	1,9971	3,3216	2,0807
△X	--	-1,86%	-20,61%	-119,74%	95,67%

Table 4.13 Analysis of gradual changes of Li Ning from 2009-2010

Year	2009	2010	△a	△Xai	Order
a1	0,1126	0,1169	0,0043	1,268%	2
a2	1,5595	1,4452	-0,1143	-2,511%	1
a3	1,8790	1,8426	-0,0364	-0,615%	3
Sum	X	X	X	-1,858%	X

Source: Own calculation

From this table, two items all have decreased from 2009 to 2010, which caused the sum of the changes among these two years are negative. However, net profit margin has contributed most to the ROE by 1.27 %.

Table 4.14 Analysis of gradual changes of Li Ning from 2010-2011

Year	2010	2011	△a	△Xai	Order
a1	0,1169	0,0434	-0,0735	-19,582%	1
a2	1,4452	1,2143	-0,2309	-1,847%	2
a3	1,8426	1,9971	0,1545	0,815%	3
Sum	X	X	X	-20,615%	X

Source: Own calculation

From 2010 to 2011, the biggest impact on ROE was net profit margin, followed by the total asset turnover, but both are negative effect. Only financial leverage has a positive effect on ROE, and has contributed most to the ROE by 0.81%.

Table 4.15 Analysis of gradual changes of Li Ning from 2011-2012

Year	2011	2012	△a	△Xai	Order
a1	0,0434	-0,2964	-0,3398	-82,418%	1
a2	1,2143	1,1091	-0,1052	6,229%	3
a3	1,9971	3,3216	1,3245	-43,547%	2
Sum	X	X	X	-119,736%	X

Source: Own calculation

From this table, we can see from 2011 to 2012, the net profit margin was the most important ratio to contribute to the decline of ROE. Its negative influence accounted for 82.42%. In the periods, the financial leverage and total asset turnover played an important role in contributing to the ROE change.

Table 4.16 Analysis of gradual changes of Li Ning from2012-2013

Year	2012	2013	△a	△Xai	Order
a1	-0,2964	-0,0672	0,2292	84,441%	1
a2	1,1091	0,9680	-0,1412	3,152%	3
a3	3,3216	2,0807	-1,2409	8,075%	2
Sum	X	X	X	95,668%	X

Source: Own calculation

From 2009 to 2013, only this period, influences of the all component elements werepositive.The adjustment of the Li Ning Company got benefit. The largest impact on ROE was net profit margin, as high as 84.44%.Second is financial leverage influence to ROE, accounted for8.08%.Among them, the minimum was total asset turnover which contribution to the ROE, only three 3.15%.

4.3.2 *Method of logarithmic decomposition*

The methods introduced in chapter 2 which about analysis of logarithmic changes will be used to analyze Li Ning Company in this part. According to structure chart 4.26 and formula 2.21, we can get four tables (table 4.17-table 4.20). For negative, we can only use the absolute value to calculation here.

Table 4.17 Analysis of index changes of Li Ning from 2009-2010

Year	2009	2010	Ia	△Xai	Order
a1	0,1126	0,1169	1,0384	1,209%	2
a2	1,5595	1,4452	0,9267	-2,440%	1
a3	1,8790	1,8426	0,9806	-0,627%	3
Sum	X	X	X	-1,858%	X

Source: Own calculation

From 2009 to 2010, the influences of two elements were negative, only onecomponent element waspositive. The largest impact on ROE was total asset turnover, as high as 2.44%.Secondwasnet profit margininfluence to ROE, accounted for1.21%.Among them, the minimum was financial leverage which contribution to the ROE, only three 0.63%.

Table 4.18 Analysis of index changes of Li Ning from 2010-2011

Year	2010	2011	△a	△Xai	Order
a1	0,1169	0,0434	0,3712	-18,837%	1
a2	1,4452	1,2143	0,8402	-3,309%	2
a3	1,8426	1,9971	1,0839	1,531%	3
Sum	X	X	X	-20,615%	X

Source: Own calculation

From 2010 to 2011, the biggest impact on ROE was net profit margin, followed by the total asset turnover, but both are negative effect. Only financial leverage has a positive effect on ROE, has contributed most to the ROE by 1.53%.

Table 4.19 Analysis of index changes of Li Ning from 2011-2012

Year	2011	2012	△a	△Xai	Order
a1	0,0434	-0,2964	6,8285	-98,334%	1
a2	1,2143	1,1091	0,9134	4,639%	3
a3	1,9971	3,3216	1,6632	-26,041%	2
Sum	X	X	X	-119,736%	X

Source: Own calculation

Like the gradual changes, from 2011 to 2012, the net profit margin was the most important ratio to contribute to the decline of ROE.Its negative influence accounted for 98.33%. In the periods, the financial leverage and total asset turnover played an important role in contributing to the ROE change.

Table 4.20 Analysis of index changes of Li Ning from 2012-2013

Year	2012	2013	△a	△Xai	Order
a1	-0,2964	-0,0672	0,2268	67,995%	1
a2	1,1091	0,9680	0,8727	6,238%	3
a3	3,3216	2,0807	0,6264	21,436%	2
Sum	X	X	X	95,668%	X

Source: Own calculation

Obviously, from this period, the adjustment of the Li Ning Company got benefit. Influences of the all component elements werepositive. The largest impact on ROE was net profit margin, as high as 67.99%.Second is financial leverage influence to ROE, accounted for21.44%.Among them, the minimum was total asset turnover which contribution to the ROE, only three 6.24%.

5 Conclusion

According to the financial statements about Li Ning Company, we made complete financial analysis and evaluation during 2009 to 2013 through a series of financial analysis methods.

We described characterization of the financial analysis methodology firstly, and then we introduced the situations about Li Ning Company. Next is our core chapter, interpreted data and drew conclusions in the chapter 4. Enterprises always faced with financial risk, operational risk, market risk, investment risk and other factors, including Li Ning Company. We did the financial analysisso as to understanding of the sources of risk and size, according to its causes and processes, develop appropriate risk control strategies to reduce risk even to lift, so that the healthy development of Li Ning Company. In 2008, Li Ning Company revenue soared 54%, and exceeding the Adidas, but the latter in 2010 ahead of Li Ning Company again. Peak period, Li Ning company store distribute morethan 1800 cities all over China. At present, the company going to decline soon.

From common-size analysis we found out that during the chosen period, the company's fundamentals are positive before 2010. The company going to decline after 2010 soon, both of turnover and net profit, and the cash and cash equipment also have decreased. This reminds us that it is a wrong market assessment. In addition, this could be the results of the accumulation of inventory.Due to above the mistakes in decision-making, the company lost last opportunity about reform.It can be said Li Ning Company always as NO.1 local brand firmly before the 2013 in Chinese sports market, and looked down on the second brand-Anta. However, Li Ning Company in internationalization and rebranding process is too hasty after 2008, so a large number of inventory accumulation, a sharp rise the price of new goods in 2010, lead to Li Ning products uncompetitive in small and middle cities, resulting in a decline in solo store sales, inventory backlog and a large number of closed chain. Later this phenomenon as Li Ning lost market position by the media interpreted. In 2012, Li Ning loss of nearly 2 billion, and 392 million loss next year. According to the results. In fact, after more than two years of adjustment, Li Ning, from original nearly ten thousand stores the original cut nearly in half. According to Li Ning 2014 interim results announcement shows that the number of stores from 8255 to reduced 5671 in 2012. Li Ning became the five companies listed on the only sports brand in losses in first half of 2014.

From the financial ratio analysis, we can figure out the capital cycle of Li Ning is very good all the time. Li Ning is always strongly capitalized, with healthy ratios. We can foundthe company never had a long-term debt before 2011.These factors are the reason which helps company through the initial difficulties from 2011 to 2013. But in 2012, the return on assets, return on equity and net profit margin reached to freezing point. Li Ning Company is on the verge of bankruptcy in 2012.Based on the company's predicament, we think it must use 6 to 12 months to solve inventory, cost, executive ability, channels, and focus on core business and improve marketing efficiency and so on

From DuPont analysis we can know that Li Ning Company's inventory rate and management cost rate is very high during 2011 and 2012. But in the two years, the cost of sales and tax payable is very low, and Li Ning Company is facing liquidity pressure. In 2010, a sharp rise in the price, lead to Li Ning products uncompetitive in small and middle cities, also for same-store sales fell, and the inventory backlog is very serious. Second are indirect causes: personal charmto bringfanseconomy cannot belong. Li Ning use personal name brands are active in the early, which is something to learn things. But if the brand does not have an inherent spirit of keeping pace with the times, this time the brand face a very dangerous stateas time goes by. Li Ning weak behind, perhaps to a certain extent, also means an era gone. From Li Ning's market research, find that their users are always middle-aged. Maybe not because Li Ning has been aimed at middle age, but young people of the time, and also as the Li Ning's old and old. The new young people grow up, it has not moved for Olympic champion. Li Ning spread propaganda, badminton, gymnastics, etc are costly, should learn the Nike and Adidas.Domestic brands greatly inflated price is spared from internal problems. Foreign brands to enter the Chinese market. Li Ning, the lack of brand positioning is the main reason. Li Ning, the lack of brand positioning, a brand is no positioning is like sailing without the sail of a ship, the market is constantly changing,and characteristic of the market ischange. Popularity cannot bring sales; the brand positioning is the most important thing.

Considering the analysis of gradual changes, we can know the changes between two years. Two items all have decreased from 2009 to 2010, and operating profit margin has contributed most to the ROE by 1.27 percentage points.From 2012 to 2013, the operating profit margin after tax was the most important ratio to contribute to the growth of ROE. In the periods, the equity multiplier and total asset turnover played an important role in contributing to the ROE change. Hence, the company have to establish brand positioning, publicizing brand inner spirit. In advertising, concentrated attack power; the second stage, according to different consumer groups, created a new brand, optimize organization structure, optimize the organizational structure, improve operational efficiency, and improve the level of net profit margin.

Li Ning, the company has lost its best chance, and now relies on the last opportunities. Managing a company is like managing a country, not too much to consider the short-term financial goals and short-term benefits, do not care the core sector spending, do not always take care of the incomes of major shareholders. To be like Washington, de Gaulle's, and really services for the company's future. Managers should stand at a height of observed trends of the market; the market is always changing, it is important to correct prediction. Large companies always have a sense of crisis; Li Ning is always walking in the back of the market. My advice to Li Ning: strong compression of the Li Ning brand, vigorously reduce the product quantity and variety, improve product quality and price, set up the classic styles for middle-aged. Overseas registered to create new sports brand and positioning the young. Concentrated funds and publicity campaign to find the hottest and the most popular sports star. Overseas sign up to create a new casual fashion brand make stealth advertising, slowly, step by step into the consumer perspective.

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List of Abbreviations

Li Ning: Li Ning Company Limited

Adidas: Adidas-group

Anta: Anta Company Limited

ROA: Return on Assets

ROE: Return on Equity

COGS: Cost of Goods Sold

EBIT: Earnings before Interest and Tax

EAT: Earning after Tax

EBT: Earning before Tax

OPM: Operating profit margin

TAT: Total assets turnover

FER: Financial expense ratio

EM: Equity Multiplier

OAT: Other Assets Turnover

CAT: Current Assets Turnover

Admin E: Administrative expenses

Rev: Revenues

MI: Minority Interests

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Ostrava dated 06.05.2015

Rui Shuang

Student´s name and surname

List of Annexes

Annex1 Income Statement of Li NingCompany

Subject \ Annual	2009/12/31	2010/12/31	2011/12/31	2012/12/31	2013/12/31
Revenues	8386910	9478527	8887453	6676441	5824110
Profit					
Profit before tax	1283130	1509514	547377	-1805919	-317172
Net profit	944524	1108487	385813	-1979114	-391540
Minority interests	24807	23649	25156	23715	32149
Other income	127111	194631	143433	168792	146702
Gross profit	3969864	4481599	4114513	2549934	2593976
Operating profit	1283130	1509514	548904	-1800516	-319414
Cost					
Administrative expenses	602929	618280	717068	1675656	235860
financing cost	66188	52178	99231	209132	158696
Cost of sales	4417046	4996928	4814013	4188977	3230134
Depreciation cost	94302	114648	158562	141543	127318
Taxation	313799	377378	136408	149480	42219
Remarks：unit-thousand　currency-RMB(yuan)					

Annex2 Balance Sheet of Li NingCompany

Subject \ Annual	**2009/12/31**	**2010/12/31**	**2011/12/31**	**2012/12/31**	**2013/12/31**
Total assets	**5377870**	**6558491**	**7318736**	**6019572**	**6016851**
Total Current Assets	**3161975**	**4193325**	**4769138**	**3905524**	**3961650**
Accounts receivable	**1069404**	**1612690**	**2094440**	**1487401**	**1371240**
Cash and cash equivalents	**1264343**	**1470435**	**1196474**	**1248593**	**1280684**
Inventories	**631528**	**805598**	**1119768**	**901368**	**942368**
Current income tax recoverable	**--**	**--**	**--**	**--**	**--**
Restricted bank deposits	**--**	**--**	**--**	**--**	**--**
Total Non-current Assets	**2215895**	**2365166**	**2549598**	**2114048**	**2055201**
Property, plant and equipment	**638181**	**720578**	**831693**	**857616**	**791071**
Intangible assets	**869911**	**814080**	**751836**	**423382**	**380935**
Deferred income tax assets	**--**	**--**	**--**	**--**	**--**
Fixed assets	**1024886**	**1101128**	**1202786**	**1219807**	**1142423**
Investment	**0**	**46930**	**60107**	**59184**	**60426**
Total Liabilities	**2515759**	**2999109**	**3654077**	**4207331**	**3125087**
Total current liabilities	**1864928**	**2368341**	**3052985**	**3264127**	**2017723**
Total non-current liabilities	**650831**	**630768**	**601092**	**943204**	**1107364**
Total Debt	**259970**	**312248**	**838059**	**2111289**	**1058227**
Long Term Debt	**0**	**0**	**0**	**651632**	**845727**
Short Term Debt	**259970**	**312248**	**838059**	**1459657**	**212500**
Accounts Payable	**826433**	**1190960**	**1462398**	**960982**	**913988**
Taxes payable	**219975**	**254620**	**36758**	**4780**	**18354**
Total Equity	**2862111**	**3559382**	**3664659**	**1812241**	**2891764**
Ordinary share	**--**	**--**	**--**	**--**	**--**
Share premium	**--**	**--**	**--**	**--**	**--**
Other reserves	**--**	**--**	**--**	**--**	**--**
Total Liabilities and Equity	**5377870**	**6558491**	**7318736**	**6019572**	**6016851**
Remarks：unit-thousand　currency-RMB(yuan)					

Annex 3 Cash Flow of Li Ning Company

Subject \ Annual	2009/12/31	2010/12/31	2011/12/31	2012/12/31	2013/12/31
Cash flow					
Cash and cash equivalents	477416	212280	-266742	51539	59261
Net cash flow from operating activities	1306668	990895	15570	-931140	-13531
Net cash flow from investing activities	-309757	-324371	-402346	-217897	-218975
Net cash flow from financing activities	-519495	-454244	120034	1200576	291767
Cash* at beginning of year	788040	1264343	1470435	1188504	1241304
Cash*at end of year	1264343	1470435	1196474	1241304	1280684
Cash Generated from Operations	1649776	1474588	427477	-795520	-17594
Opening balance of cash*	788040	1264343	1470435	1196474	1241304
Exchange rate changes on cash*	-1113	-6188	-7219	580	-19881
Taxes paid(Refunded)	--	--	-411907	-136294	4063
Closing balance of cash*	1264343	1470435	1196474	1248593	1280684
Loans					
New Loans	457880	382320	2240053	1714472	1803005
Loans Repayment	-805250	-327082	-1711422	-1108028	-2848243
Remarks：unit-thousand currency-RMB(yuan) Cash*=Cash and cash equivalents					

Annex4 Income Statement of Anta Company

Year	**2013-12-31**	**2012-12-31**	**2011-12-31**	**2010-12-31**	**2009-12-31**
Cost of sale	**1982432**	**2290446**	**2546332**	**1943291**	**1647968**
Operating Profit	**1755489**	**1728548**	**2160905**	**894822**	**682899**
Profit Before Taxation	**1752755**	**1729510**	**2160080**	——	——
Taxation	**423249**	**373697**	**435999**	——	——
Minority Interests	**14671**	**-2888**	**-6041**	——	——
Net Profit	**1314835**	**1358701**	**1730122**	——	——
Total Dividend	**952211**	**973670**	**1056935**	——	——
Retained profit/(loss)	**362624**	**385031**	**673187**	——	——
Gross Profit	**3039254**	**2893166**	**3762397**	**1509772**	**1169054**
Depreciation	**100403**	**77353**	**69476**	**32728**	**24411**
Interest Paid	**25111**	**17496**	**3285**	——	——
Revenues	**5021686**	**5183612**	**6308729**	**3453063**	**2817022**

Remarks：Unit-thousand　　Currency-RMB(CHY)

Annex 5 Balance Sheet of Anta Company

Year	2013-12-31	2012-12-31	2011-12-31	2010-12-31	2009-12-31
Fixed assets	**935047**	**917518**	**680209**	**160366**	**93618**
Investments	**38900**	**31120**	**20535**	——	——
Current Assets	**8187139**	**8102474**	**6769707**	**5745055**	**4909755**
Other Assets	**957061**	**984951**	**723866**	——	——
Other assets	-	-	-	——	——
Total Assets	**10118147**	**10036063**	**8194317**	**7054491**	**6103406**
Long Term Debt	**0**	**0**	**0**	**0**	**0**
Other Liabilities	**390505**	**385914**	**218053**		
Current Liabilities	**2573654**	**2897909**	**1604374**	**1163393**	**872460**
Inventory	**689321**	**687404**	**618130**	**453823**	**374090**
Cash On Hand	**5054722**	**5212269**	**4442967**		
Short Term Debt	**490229**	**996502**	**0**	**0**	**0**
Total Debt	**490229**	**996502**	**0**	**0**	**0**
Accounts Payable	**1889277**	**1774000**	**1471495**	**1070646**	**819516**
Accounts Receivable	**1933096**	**1372801**	**1708610**	**990441**	**528936**
Total Equity	**9627918**	**9039561**	**8194317**	**7054491**	**6103406**

Remarks：Unit-thousand Currency-RMB(CHY)

Annex 6 Cash Flow of Anta Company

Year	2013-12-31	2012-12-31	2011-12-31	2010-12-31	2009-12-31
Cash Generated from (Used in) Operations	**1288636**	**2247610**	**1702393**	**971133**	**893312**
Net Cash Flow from Operating Activities	**1128053**	**1964982**	**1447550**	**1423321**	**873251**
Interest Received	**206146**	**163313**	**131837**	**123121**	**112189**
Interest Paid	**-22005**	**0**	**0**	**0**	**0**
New Loans	**490229**	**996502**	**0**	**0**	**0**
Loans Repayment	**-996502**	**0**	**0**	**0**	**0**
Equity Financing	**3984**	**0**	**951**	**566**	**431**
Net Cash Flow from Financing Activities	**-1407527**	**-2835**	**-1059349**	——	——
Net Cash Flow from Investing Activities	**620126**	**-975667**	**-738149**	——	——
Increase(Decrease) in Cash & Cash Equivalents	**340652**	**986480**	**-349948**	——	——
Cash & Cash Equivalents at beginning of year	**4007535**	**3018233**	**3391151**	——	——
Cash & Cash Equivalents at End of Year	**4344262**	**4007535**	**3018233**	**3391151**	**2437089**

Remarks：Unit-thousand　Currency-RMB(CHY)

Annex 7 Income Statement of Adidas Company

Year	**2010**	**2011**	**2012**	**2013**
Revenues	**89925000**	**99915000**	**111622500**	**108690000**
Cost Of Goods Sold	**46950000**	**52447500**	**58350000**	**55140000**
GROSS PROFIT	**42975000**	**47467500**	**53272500**	**53550000**
Selling General & Admin Expenses, Total	**12510000**	**13230000**	**14602500**	**14115000**
Other Operating Expenses	**23775000**	**27300000**	**30045000**	**30645000**
OPERATING INCOME	**6690000**	**6937500**	**8625000**	**8790000**
Interest Expense	**-840000**	**-810000**	**-727500**	**-547500**
Interest And Investment Income	**172500**	**225000**	**262500**	**187500**
NET INTEREST EXPENSE	**-667500**	**-585000**	**-465000**	**-360000**
Currency Exchange Gains (Loss)	**15000**	**-52500**	**-52500**	**-135000**
Other Non-Operating Income (Expenses)	**-7500**	**7500**	**0**	**-15000**
Other Unusual Items, Total	**-105000**	**210000**	**255000**	**607500**
EBT	**6045000**	**6517500**	**6382500**	**8505000**
Income Tax Expense	**1785000**	**1957500**	**2452500**	**2580000**
Minority Interest In Earnings	**7500**	**-37500**	**-15000**	**22500**
Earnings From Continuing Operations	**4260000**	**4560000**	**3930000**	**5925000**
NET INCOME	**4252500**	**4597500**	**3945000**	**5902500**

Remarks：Unit-thousand Currency-RMB(CHY)   EUROS:RMB=7.5:1

Annex 8 Balance Sheet of Adidas Company

Year	2010	2011	2012	2013
Cash And Equivalents	8670000	6795000	12525000	11902500
Short-Term Investments	480000	390000	367500	457500
Trading Asset Securities	1747500	3487500	1987500	307500
TOTAL CASH AND SHORT TERM INVESTMENTS	10897500	10672500	14880000	12667500
Accounts Receivable	12502500	11962500	12660000	13567500
Other Receivables	1432500	1695000	1582500	1635000
TOTAL RECEIVABLES	13935000	13657500	14242500	15202500
Inventory	15892500	18765000	18645000	19755000
Prepaid Expenses	1500000	1740000	1732500	1770000
Other Current Assets	1875000	2625000	2077500	2032500
TOTAL CURRENT ASSETS	44100000	47460000	51577500	51427500
Gross Property Plant And Equipment	13485000	15525000	16965000	18142500
Accumulated Depreciation	-7072500	-8302500	-8752500	-8857500
NET PROPERTY PLANT AND EQUIPMENT	6412500	7222500	8212500	9285000
Goodwill	11542500	11647500	9607500	9030000
Long-Term Investments	757500	742500	847500	900000
Deferred Tax Assets, Long Term	3810000	3630000	3960000	3645000
Other Intangibles	11917500	12472500	12382500	11872500
Other Long-Term Assets	1095000	1102500	795000	832500
TOTAL ASSETS	79635000	84277500	87382500	86992500
Accounts Payable	12705000	14152500	13425000	13687500
Accrued Expenses	4710000	8535000	9495000	7177500
Current Income Taxes Payable	1987500	1890000	2062500	1800000
Other Current Liabilities, Total	7717500	5572500	5482500	7462500
Unearned Revenue, Current	120000	165000	202500	225000
TOTAL CURRENT LIABILITIES	29310000	32535000	32805000	35490000
Long-Term Debt	10065000	7432500	9052500	4897500

Capital Leases	**22500**	**30000**	**97500**	**67500**
Minority Interest	**52500**	**-67500**	**-97500**	**-60000**
Unearned Revenue, Non-Current	**142500**	**187500**	**172500**	**165000**
Other Non-Current Liabilities	**690000**	**870000**	**930000**	**817500**
TOTAL LIABILITIES	**44962500**	**45817500**	**47700000**	**45885000**
Common Stock	**1567500**	**1567500**	**1567500**	**1567500**
Retained Earnings	**28830000**	**31027500**	**33405000**	**37192500**
Comprehensive Income And Other	**-1192500**	**5932500**	**4807500**	**2407500**
TOTAL COMMON EQUITY	**34620000**	**38527500**	**39780000**	**41167500**
TOTAL EQUITY	**34672500**	**38460000**	**39682500**	**41107500**
TOTAL LIABILITIES AND EQUITY	**79635000**	**84277500**	**87382500**	**86992500**

Remarks：unit-thousand currency-RMB(CHY) EUROS:RMB=7.5:1

Annex 9Cash Flow of Adidas Company

Year	2010	2011	2012	2013
NET INCOME	4252500	4597500	3945000	5902500
Depreciation & Amortization	1455000	1537500	1627500	1785000
DEPRECIATION & AMORTIZATION, TOTAL	1455000	1537500	1627500	1785000
Amortization Of Deferred Charges	412500	360000	367500	390000
(Gain) Loss From Sale Of Asset	37500	90000	90000	52500
Asset Write-down& Restructuring Costs	105000	-15000	2010000	405000
Other Operating Activities	-277500	-930000	-840000	-435000
Change In Accounts Receivable	-750000	-307500	-1012500	-2317500
Change In Inventories	-4207500	-2647500	172500	-2257500
Change In Accounts Payable	5677500	3367500	705000	1230000
CASH FROM OPERATIONS	6705000	6052500	7065000	4755000
Capital Expenditure	-1702500	-2385000	-2820000	-3202500
Sale Of Property, Plant, And Equipment	7500	15000	142500	30000
Sale (Purchase) Of Intangible Assets	-187500	-435000	-427500	-382500
Investments In Marketable	-765000	-1515000	1537500	1545000
CASH FROM INVESTING	-2475000	-4245000	-1627500	-1822500
TOTAL DEBT REPAID	-1485000	-2475000	-1755000	-1672500
Common Dividends Paid	-547500	-1252500	-1567500	-2115000
TOTAL DIVIDEND PAID	-547500	-1252500	-1567500	-2115000
CASH FROM FINANCING	-1785000	-3750000	315000	-3292500
Foreign Exchange Rate Adjustments	412500	112500	-22500	-262500
NET CHANGE IN CASH	2857500	-1830000	5730000	-622500

Remarks：unit-thousand　currency-RMB(CHY)　EUROS:RMB=7.5:1